Components of Net Periodic Benefit Cost (Income) and Other Amounts Recognized in Other Comprehensive (Income) Loss (In millions)	2007 U.S.	2007 Non-U.S.	2007 Other	2006 U.S.	2006 Non-U.S.	2006 Other	2005 U.S.	2005 Non-U.S.	2005 Other
Net Periodic Benefit Cost (Income)									
Service cost	$ **15.7**	$ **8.1**	$ **0.3**	$ 16.3	$ 8.4	$ 0.4	$ 16.4	$ 6.9	$ 0.5
Interest cost	**58.0**	**20.9**	**4.5**	58.2	17.8	4.0	57.9	17.1	4.9
Expected return on plan assets	**(58.4)**	**(21.6)**	**—**	(53.2)	(18.1)	—	(51.1)	(15.5)	—
Amortization of prior service cost (credit)	**2.4**	**0.7**	**(10.0)**	2.5	0.7	(10.5)	5.1	0.7	(12.7)
Amortization of net deferred actuarial loss	**21.1**	**5.3**	**1.9**	23.0	8.1	0.4	22.9	8.1	1.6
Net curtailment and settlement loss	**0.4**	**—**	**—**	—	—	—	1.1	2.3	—
Net periodic benefit cost (income)	$ **39.2**	$ **13.4**	$ **(3.3)**	$ 46.8	$ 16.9	$ (5.7)	$ 52.3	$ 19.6	$ (5.7)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Income) Loss									
Net deferred actuarial loss	$ **17.8**	$ **—**	$ **11.3**	N/A	N/A	N/A	N/A	N/A	N/A
Amortization of prior service cost (credit)	**(2.8)**	**(0.7)**	**10.0**	N/A	N/A	N/A	N/A	N/A	N/A
Amortization of net deferred actuarial loss	**(21.1)**	**(5.4)**	**(1.9)**	N/A	N/A	N/A	N/A	N/A	N/A
Total recognized in other comprehensive (income) loss	**(6.1)**	**(6.1)**	**19.4**	N/A	N/A	N/A	N/A	N/A	N/A
Total recognized in net periodic benefit cost (income) and other comprehensive (income) loss	$ **33.1**	$ **7.3**	$ **16.1**	N/A	N/A	N/A	N/A	N/A	N/A

The estimated net deferred actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year are $25.0 million and $2.5 million, respectively. The estimated net deferred actuarial loss and prior service credit for the other postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost (income) over the next fiscal year are $2.1 million and $(8.5) million, respectively.

Funded Status of U.S. Pension Plans (In millions)	Fully-Funded U.S. (1) Qualified Pension Plans 2007	2006	2005	Underfunded U.S. (1) Qualified Pension Plans 2007	2006	2005	Unfunded Pay-As-You-Go (2) U.S. Nonqualified Plans 2007	2006	2005
Projected benefit obligation	$ **6.8**	$ 7.4	$ 3.2	$ **925.0**	$ 941.1	$ 999.4	$ **100.8**	$ 95.6	$ 91.6
Fair value of plan assets	**8.3**	10.1	5.3	**765.4**	727.1	640.2	**—**	—	—
Funded status (PBO basis)	$ **1.5**	$ 2.7	$ 2.1	$ **(159.6)**	$ (214.0)	$ (359.2)	$ **(100.8)**	$ (95.6)	$ (91.6)
Benefits paid	$ **(0.3)**	$ (0.3)	$ (0.1)	$ **(82.5)**	$ (87.2)	$ (80.4)	$ **(5.1)**	$ (5.1)	$ (10.9)
Discount rate	**6.25%**	5.75%	5.50%	**6.25%**	5.75%	5.50%	**6.25%**	5.75%	5.50%

Funded Status of Non-U.S. Pension Plans (In millions)	Fully-Funded Non-U.S. (1) Pension Plans 2007	2006	2005	Underfunded Non-U.S. (1) Pension Plans 2007	2006	2005	Unfunded Pay-As-You-Go (2) Non-U.S. Pension Plans 2007	2006	2005
Projected benefit obligation	$ **248.0**	$ 236.4	$ 215.5	$ **23.3**	$ 20.3	$ 18.3	$ **145.1**	$ 132.2	$ 130.5
Fair value of plan assets	**300.6**	272.1	227.5	**13.8**	11.4	9.6	**—**	—	—
Funded status (PBO basis)	$ **52.6**	$ 35.7	$ 12.0	$ **(9.5)**	$ (8.9)	$ (8.7)	$ **(145.1)**	$ (132.2)	$ (130.5)
Benefits paid	$ **(11.2)**	$ (10.1)	$ (8.9)	$ **(2.8)**	$ (0.8)	$ (0.8)	$ **(6.4)**	$ (5.3)	$ (5.0)
Weighted average discount rate	**5.77%**	5.30%	4.85%	**8.16%**	7.46%	7.01%	**5.49%**	4.99%	4.00%

(1) Plans intended to be advance-funded.
(2) Plans intended to be pay-as-you-go.

The accumulated benefit obligation for all defined benefit pension plans was approximately $1,379 million and $1,341 million as of December 31, 2007 and 2006, respectively.

Pension Plans with Underfunded or Unfunded Accumulated Benefit Obligation (In millions)	U.S. 2007	U.S. 2006	Non-U.S. 2007	Non-U.S. 2006	Total 2007	Total 2006
Projected benefit obligation	$ **1,025.8**	$ 1,036.6	$ **163.8**	$ 149.0	$ **1,189.6**	$ 1,185.6
Accumulated benefit obligation	**992.6**	983.2	**147.6**	131.0	**1,140.2**	1,114.2
Fair value of plan assets	$ **765.4**	$ 727.1	$ **9.4**	$ 8.4	$ **774.8**	$ 735.5

Estimated Expected Future Benefit Payments Reflecting Future Service and Medicare Subsidy Receipts for the Fiscal Year (s) Ending (In millions)	Pension Plans U.S. (3) Benefit Payments	Pension Plans Non-U.S. (4) Benefit Payments	Other Postretirement Plans Benefit Payments	Other Postretirement Plans Medicare Subsidy Receipts	Total Payments Net of Subsidy
2006 (actual)	$ 92.6	$ 16.2	$ 13.9	$ —	$ 122.7
2007 (actual)	87.9	20.4	9.8	(4.8)	113.3
2008	65.9 (5)	19.8	9.7	(2.9)	92.5
2009	68.7	21.6	8.5	(0.8)	98.0
2010	69.8	22.2	8.4	(0.1)	100.3
2011	70.8	22.9	8.2	(0.1)	101.8
2012	72.2	24.4	8.0	(0.1)	104.5
2013—2017	$ 419.2	$ 136.2	$ 36.6	$ (0.3)	$ 591.7

(3) Effective January 1, 2008 lump sum distributions from certain U.S. qualified pension plans will be restricted based on the provisions of the Pension Protection Act of 2006 (the "Act"). During the period the plan is less than 100% funded after that date, the Act prohibits the distribution of lump sums to retiring participants, while the Company remains under Chapter 11 of the U.S. Bankruptcy Code. The plan would be permitted to resume distributing lump sums to retiring participants under the Act at the date (1) the plan becomes 100% funded or (2) the Company is no longer in Chapter 11 and the plan is at least 80% funded, whichever is earlier. Estimated payments from the U.S. pension plans are expected to be lower starting in 2008 as a result of this restriction.

(4) Non-U.S. estimated benefit payments for 2008 and future periods have been translated at the applicable December 31, 2007 exchange rates.

(5) Excludes $17 million of estimated future benefit payments from nonqualified plans that are restricted by the Bankruptcy Court.

Discount Rate Assumption — The assumed discount rate for pension plans reflects the market rates for high-quality corporate bonds currently available and is subject to change based on changes in the overall market interest rates. For the U.S. qualified pension plans, the assumed discount rate of 6.25% as of December 31, 2007 was selected by Grace, in consultation with its independent actuaries, based on a yield curve constructed from a portfolio of high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plan.

As of December 31, 2007 and 2006, the United Kingdom pension plan and German pension plans combined represented approximately 86% and 87%, respectively, of the benefit obligation of the non-U.S. pension plans. The assumed discount rates as of December 31, 2007 for the United Kingdom (5.75%) and Germany (5.50%) were selected by Grace, in consultation with its independent actuaries, based on yield curves constructed from a portfolio of Sterling and Euro denominated high quality bonds for which the timing and amount of cash outflows approximate the estimated payouts of the plans. The assumed discount rates for the remaining non-U.S. pension plans were determined based on the nature of the liabilities, local economic environments and available bond indices.

Investment Guidelines for Advance-Funded Pension Plans —The target allocation of investment assets for 2008, the actual allocation at December 31, 2007 and 2006, and the expected long-term rate of return by asset category for Grace's U.S. qualified pension plans are as follows:

U.S. Qualified Pension Plans Asset Category	Target Allocation 2008	Percentage of Plan Assets December 31, 2007	Percentage of Plan Assets December 31, 2006	Weighted-Average Expected Long-Term Rate of Return 2008	Weighted-Average Expected Long-Term Rate of Return 2007
U.S. equity securities	45%	**45%**	46%	4.46	4.46
Non-U.S. equity securities	15%	**16%**	16%	0.76	0.76
Short-term debt securities	10%	**11%**	11%	0.60	0.60
Intermediate-term debt securities	30%	**28%**	27%	2.18	2.18
Total	100%	**100%**	100%	8.00	8.00

The investment goal for the U.S. qualified pension plans, subject to advance funding, is to earn a long-term rate of return consistent with the related cash flow profile of the underlying benefit obligation.

The U.S. qualified pension plans have assets managed by five investment managers under investment guidelines summarized as follows:

- For debt securities: single issuers are limited to 5% of the portfolio's market value (with the exception of U.S. government and agency securities); the average credit quality of the portfolio shall be at least A rated; no more than 20% of the market value of the portfolio shall be invested in non-dollar denominated bonds; and privately placed securities are limited to no more than 50% of the portfolio's market value.

- For U.S. equity securities: the portfolio is entirely passively managed through investment in the Dow Jones Wilshire 5000 index fund, which is invested primarily in equity securities with the objective of approximating as closely as possible the capitalization weighted total rate of return of the entire U.S. market for publicly traded securities.

- For non-U.S. equity securities: no individual security shall represent more than 5% of the portfolio's market value at any time; investment in U.S. common stock securities is prohibited (with the exception of American Depository Receipts) and emerging market securities may represent up to 30% of the total portfolio's market value. Currency futures and forward contracts may be held for the sole purpose of hedging existing currency risk in the portfolio.

For 2008, the expected long-term rate of return on assets for the U.S. qualified pension plans is 8% (also 8% in 2007). Average annual returns over one, two, three, five, ten and fifteen-year periods were 6.27%, 9.23%, 8.27%, 11.30%, 6.54%, and 8.16%, respectively. Negative returns across broad categories of U.S. equity securities in 2000, 2001 and 2002 caused lower returns in periods greater than three years.

The expected return on plan assets for the U.S. qualified pension plans is a conservative rate based on a comparison to historical actual returns and benchmark data. Grace looks at the trailing 20-year and 25-year returns on the plan portfolio under the current target equity to fixed income allocation of 60%/40% to determine a weighted-average rate of return based on historical data. These results are then compared with historical returns of balanced fund indices, as provided by our independent actuaries.

The balanced fund indices are composites of the S&P 500 and the Lehman Brothers Gov't/Credit indices. Grace then evaluates the estimated rates and selects a rate that it believes to be reasonable and conservative, and submits that rate for review by our independent actuaries for reasonableness.

Non-U.S. pension plans accounted for approximately 29% and 28% of total global pension assets at December 31, 2007 and 2006, respectively. Each of these plans, where applicable, follows local requirements and regulations. Some of the local requirements include the establishment of a local pension committee, a formal statement of investment policy and procedures, and routine valuations by plan actuaries.

The target allocation of investment assets for non-U.S. pension plans varies depending on the investment goals of the individual plans. The plan assets of the United Kingdom pension plan represent approximately 82% and 83% of the total non-U.S. pension plan assets at December 31, 2007 and 2006, respectively. In determining the expected rate of return for the UK plan, the trustees' strategic investment policy has been considered together with long-term historical returns and investment community forecasts for each asset class. The expected return by sector has been combined with the actual asset allocation to determine the 2007 expected long-term return assumption of 7%. As of December 31, 2007, the Trustees of this plan changed the target equity to fixed income allocation from 50%/50% to 18%/82%, which will reduce the long-term return assumption to 6% as of 2008.

The target allocation of investment assets for 2008, the actual allocation at December 31, 2007 and 2006, and the expected long-term rate of return by asset category for Grace's United Kingdom pension plan are as follows:

United Kingdom Pension Plans	Target Allocation	Percentage of Plan Assets December 31,		Weighted-Average Expected Long-Term Rate of Return	
Asset Category	2008	2007	2006	2008	2007
U.K. equity securities	11%	**10%**	30%	0.89	2.55
Non-U.K. equity securities	7%	**7%**	20%	0.60	2.00
U.K. gilts	19%	**20%**	20%	0.86	0.90
U.K. corporate bonds	63%	**63%**	30%	3.65	1.55
Total	100%	**100%**	100%	6.00	7.00

The plan assets of the Canadian pension plans represent approximately 7% and 6% of the total non-U.S. pension plan assets at December 31, 2007 and 2006, respectively. The target allocation of investment assets for 2008, the actual allocation at December 31, 2007 and 2006, and the expected long-term rate of return by asset category for Grace's Canadian pension plans are as follows:

Canadian Pension Plans Asset Category	Target Allocation 2008	Percentage of Plan Assets December 31, 2007	2006	Weighted-Average Expected Long-Term Rate of Return 2008	2007
Equity securities	55%	53%	55%	4.70	5.50
Bonds	45%	47%	45%	2.30	2.50
Total	100%	100%	100%	7.00	8.00

The plan assets of the other country plans represent approximately 11% in the aggregate (with no country representing more than 3% individually) of total non-U.S. pension plan assets at December 31, 2007 and 2006.

Plan Contributions and Funding —Subject to any required approval of the Bankruptcy Court, Grace intends to satisfy its funding obligations under the Plans and to comply with all of the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). For ERISA purposes, funded status is calculated on a different basis than under U.S. generally accepted accounting principles. On June 20, 2007, Grace obtained Bankruptcy Court approval to fund minimum required payments of approximately $54 million for the period from July 2007 through January 2008. In that regard, Grace contributed approximately $9 million in July 2007 and approximately $15 million in each of September 2007, October 2007, and January 2008 to the trusts that hold assets of the Plans. While Grace intends to continue to fund all minimum required payments under the Plans, there can be no assurance that the Bankruptcy Court will continue to approve these payments. Based on the Plans' status as of December 31, 2007, Grace's ERISA funding obligations for 2008, 2009, and 2010 would be approximately $54 million, $50 million, and $38 million, respectively.

Contributions to non-U.S. pension plans are not subject to Bankruptcy Court approval and Grace intends to fund such plans based on applicable legal requirements, and actuarial and trustee recommendations. Grace expects to contribute approximately $14 million to its non-U.S. pension plans and approximately $10 million (excluding any Medicare subsidy receipts) to its other postretirement plans in 2008.

Grace plans to pay benefits as they become due under virtually all pay-as-you-go plans and to maintain compliance with federal funding laws for its U.S. qualified pension plans.

20. Operating Segment Information

Grace is a global producer of specialty chemicals and materials. It generates revenues from two operating segments: Grace Davison, which includes specialty catalysts and materials used in a wide range of energy, refining, consumer industrial, packaging and life sciences applications; and Grace Construction Products, which includes specialty chemicals and building materials used in commercial, infrastructure, and residential construction. Intersegment sales, eliminated in consolidation, are not material.

Grace's reportable operating segments reflect the transfer of the packaging technologies product group to the Grace Davison operating segment, which was completed in the fourth quarter of 2007. The previous Grace Performance Chemicals operating segment has been renamed "Grace Construction Products" as a result of the transfer. All segment information contained herein has been retrospectively restated to reflect this realignment.

The table below presents information related to Grace's operating segments for the years ended December 31, 2007, 2006, and 2005. Only those corporate expenses directly related to the operating segments are allocated for reporting purposes. All remaining corporate items are reported separately and labeled as such.

Operating Segment Data
(In millions)

	2007	2006	2005
Net Sales			
Grace Davison	**$ 2,009.2**	$ 1,797.3	$ 1,663.2
Grace Construction Products	**1,106.0**	1,029.2	906.3
Total	**$ 3,115.2**	$ 2,826.5	$ 2,569.5
Pre-tax Operating Income			
Grace Davison	**$ 240.4**	$ 209.1	$ 192.8
Grace Construction Products	**146.8**	138.5	115.4
Corporate	**(102.6)**	(107.4)	(106.7)
Total	**$ 284.6**	$ 240.2	$ 201.5
Depreciation and Amortization			
Grace Davison	**$ 79.6**	$ 81.7	$ 85.6
Grace Construction Products	**31.6**	30.6	31.0
Corporate	**2.2**	1.2	4.3
Total	**$ 113.4**	$ 113.5	$ 120.9
Capital Expenditures			
Grace Davison	**$ 87.0**	$ 69.6	$ 57.1
Grace Construction Products	**38.2**	40.0	30.0
Corporate	**11.7**	9.6	6.9
Total	**$ 136.9**	$ 119.2	$ 94.0
Total Assets			
Grace Davison	**$ 1,185.6**	$ 1,072.6	$ 1,031.7
Grace Construction Products	**561.6**	521.2	502.9
Corporate	**2,121.8**	2,043.6	2,004.0
Total	**$ 3,869.0**	$ 3,637.4	$ 3,538.6

Corporate costs include expenses of corporate headquarters functions incurred in support of core operations, such as corporate financial and legal services, human resources management, communications and regulatory affairs. Corporate costs also include certain pension and postretirement benefits, including the amortization of deferred costs that are considered a core operating expense but not allocated to operating segments. Corporate assets include cash and cash equivalents, investment securities, cash value of life insurance policies, net of policy loans, deferred income taxes and asbestos insurance receivable.

The following table presents information related to the geographic areas in which Grace operated in 2007, 2006 and 2005. Sales are attributed to geographic areas based on customer location.

Geographic Area Data
(In millions)

	2007	2006	2005
Net Sales			
United States	**$ 1,020.7**	$ 1,032.3	$ 945.4
Canada and Puerto Rico	**94.2**	126.5	141.7
Total North America	**1,114.9**	1,158.8	1,087.1
Europe Africa	**1,295.7**	1,071.0	936.1
Asia Pacific	**502.5**	443.2	403.2
Latin America	**202.1**	153.5	143.1
Total	**$ 3,115.2**	$ 2,826.5	$ 2,569.5
Properties and Equipment, net			
United States	**$ 408.8**	$ 400.2	$ 384.1
Canada and Puerto Rico	**20.8**	18.7	19.8
Total North America	**429.6**	418.9	403.9
Europe Africa	**212.8**	186.7	171.6
Asia Pacific	**47.0**	44.1	43.8
Latin America	**16.7**	14.8	13.6
Total	**$ 706.1**	$ 664.5	$ 632.9
Goodwill and Other Assets			
United States	**$ 126.1**	$ 133.2	$ 153.5
Canada and Puerto Rico	**8.7**	10.3	17.9
Total North America	**134.8**	143.5	171.4
Europe Africa	**141.8**	117.3	177.5
Asia Pacific	**17.5**	10.2	10.8
Latin America	**18.9**	15.4	15.8
Total	**$ 313.0**	$ 286.4	$ 375.5

Cash value of life insurance policies, net of policy loans and asbestos-related insurance are held entirely in the U.S.

The pre-tax operating income for Grace's operating segments for the years ended December 31, 2007, 2006 and 2005 is reconciled below to income before income taxes and minority interest presented in the accompanying Consolidated Statements of Operations.

Reconciliation of Operating Segment Data to Financial Statements

(In millions)	2007	2006	2005
Pre-tax operating income—core operations	**$ 284.6**	$ 240.2	$ 201.5
Minority interest in consolidated entities	**18.1**	34.4	21.1
Chapter 11 expenses, net of interest income	**(86.4)**	(49.9)	(30.9)
Net gain (loss) on sales of investments and disposals of assets	**1.9**	0.6	(0.7)
Provision for environmental remediation	**(17.0)**	(30.0)	(25.0)
Interest expense and related financing costs	**(72.1)**	(73.2)	(55.3)
Other, net	**(36.5)**	(61.3)	(1.0)
Income before income taxes and minority interest	**$ 92.6**	$ 60.8	$ 109.7

21. Minority Interest in Consolidated Entities

Within both Grace Davison and Grace Construction Products, Grace conducts certain business activities in various countries through joint ventures with unaffiliated third parties, the financial results of which are included in Grace's consolidated financial statements. Minority interest primarily pertains to Grace's joint venture with Chevron Products Company for the development and sale of hydroprocessing catalysts to the petroleum refining industry. Grace has a 55% economic interest in this joint venture. The following table presents summary financial statistics for Grace's combined businesses subject to profit sharing:

	Year Ended December 31,		
(In millions)	2007	2006	2005
Sales	**$ 434.7**	$ 397.9	$ 341.7
Income before taxes	**41.8**	79.1	49.3
Net income	**39.5**	77.9	47.5
Minority interests in net income	**18.1**	34.4	21.1
Cash	**57.0**	65.5	15.0
Other current assets	**157.0**	136.7	119.9
Total assets	**233.1**	212.4	146.3
Total liabilities	**74.5**	66.9	61.5
Shareholders' equity	**158.6**	145.5	84.8
Minority interests in shareholders' equity	**70.8**	65.0	36.4

22. Quarterly Summary and Statistical Information (Unaudited)

Quarterly Summary and Statistical Information *(Unaudited)*
(In millions, except per share)

	March 31	June 30 (1)	September 30	December 31 (1)
2007				
Net sales	$ 715.6	$ 812.8	$ 783.1	$ 803.7
Cost of goods sold	497.7	552.9	537.6	559.2
Net income	4.8	20.5	16.7	38.3
Net income per share: (2)				
Basic earnings per share:				
Net income	$ 0.07	$ 0.29	$ 0.24	$ 0.54
Diluted earnings per share:				
Net income	0.07	0.29	0.23	0.53
Market price of common stock: (3)				
High	$ 26.83	$ 29.92	$ 27.08	$ 30.65
Low	19.82	24.46	18.86	22.99
Close	26.42	24.49	26.86	26.18

	March 31	June 30 (1)	September 30	December 31
2006				
Net sales	$ 658.6	$ 729.1	$ 741.4	$ 697.4
Cost of goods sold	457.8	490.1	503.7	472.2
Net income (loss)	0.1	(5.2)	18.4	5.0
Net income (loss) per share: (2)				
Basic earnings (loss) per share:				
Net income (loss)	$ 0.00	$ (0.08)	$ 0.27	$ 0.07
Diluted earnings (loss) per share:				
Net income (loss)	0.00	(0.08)	0.27	0.07
Market price of common stock: (3)				
High	$ 13.85	$ 17.49	$ 13.26	$ 20.35
Low	9.15	10.69	8.12	12.19
Close	13.30	11.70	13.26	19.80

(1) Second quarter 2007 and 2006 and fourth quarter 2007 net income (loss) includes provisions for environmental remediation of $12.0 million, $30.0 million and $5.0 million, respectively.

(2) Per share results for the four quarters may differ from full-year per share results, as a separate computation of the weighted average number of shares outstanding is made for each quarter presented.

(3) Principal market: New York Stock Exchange.

Selected Financial Data [1]
(In millions, except per share amounts)

	2007	2006	2005	2004	2003
Statement of Operations					
Net sales	$ **3,115.2**	$ 2,826.5	$ 2,569.5	$ 2,259.9	$ 1,980.5
Income (loss) from continuing operations before income taxes and minority interest [2]	**92.6**	60.8	109.7	(395.1)	(68.7)
Minority interest in consolidated entities	**(18.1)**	(34.4)	(21.1)	(8.7)	1.2
Net income (loss) [2]	**80.3**	18.3	67.3	(402.3)	(55.2)
Financial Position					
Cash and cash equivalents	$ **480.5**	$ 536.3	$ 474.7	$ 510.4	$ 309.2
Properties and equipment, net	**706.1**	664.5	632.9	683.6	688.8
Total assets	**3,869.0**	3,637.4	3,538.6	3,553.1	2,882.3
Total liabilities	**4,255.6**	4,187.2	4,133.9	4,174.9	3,046.1
Liabilities subject to compromise (a subset of total liabilities)	**3,277.5**	3,221.6	3,155.1	3,207.7	2,452.3
Shareholders' equity (deficit)	**(386.6)**	(549.8)	(595.3)	(621.8)	(163.8)
Cash Flow					
Operating activities	$ **88.2**	$ 152.7	$ 67.3	$ 325.4	$ 111.7
Investing activities	**(206.9)**	(129.4)	(77.9)	(138.0)	(110.0)
Financing activities	**45.7**	21.9	(10.1)	(0.7)	(4.7)
Net cash flow	**(55.8)**	61.6	(35.7)	201.2	25.6
Data Per Common Share (Diluted)					
Net income (loss) [2]	$ **1.12**	$ 0.27	$ 1.00	$ (6.11)	$ (0.84)
Average common diluted shares outstanding (thousands)	**71,600**	68,300	67,300	65,800	65,500
Other Statistics					
Capital expenditures	$ **136.9**	$ 119.2	$ 94.0	$ 75.3	$ 87.3
Common stock price range	$ **18.86-30.65**	$ 8.12-20.35	$ 6.75-13.79	$ 2.51-14.95	$ 1.48-5.52
Common shareholders of record	**9,153**	9,522	9,883	10,275	10,734
Number of employees (approximately)	**6,500**	6,500	6,400	6,500	6,300

(1) Certain prior-year amounts have been reclassified to conform to the 2007 presentation.
(2) Amounts in 2007, 2006, and 2005 contain provisions for environmental remediation of $17.0 million, $30.0 million, and $25.0 million, respectively. Amounts in 2004 reflect the following adjustments: a $714.8 million pre-tax charge to increase Grace's recorded asbestos-related liability to the maximum amount permitted as a condition precedent under Grace's plan of reorganization (the "Debtors Plan"); a pre-tax credit for expected insurance recovery related to asbestos liabilities of $238.2 million; a $94.1 million pre-tax charge to increase the interest to which general unsecured creditors would be entitled under the Debtors Plan; a $151.7 million pre-tax credit for net income tax benefits related to the above items; and an $82.0 million tax liability on the expected taxable distributions from foreign subsidiaries to fund the Debtors Plan. Amounts in 2003 contain a provision for environmental remediation of $142.5 million and a provision for asbestos-related claims of $30.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Financial Summary for December 31, 2007

Following is a summary analysis of key financial measures of our performance for the year ended December 31, 2007 compared with the prior year. Our reportable operating segments reflect the transfer of the packaging technologies product group to the Grace Davison operating segment, which was completed in the fourth quarter of 2007. The previous Grace Performance Chemicals operating segment has been renamed "Grace Construction Products" as a result of the transfer. All segment information contained herein has been retrospectively restated to reflect this realignment.

- Sales for the year ended December 31, 2007 were $3,115.2 million compared with $2,826.5 million for the prior year, a 10.2% increase (6.4% before the effects of currency translation). The increase was attributable to higher selling prices in response to rising raw material costs and to higher volumes in most product groups, particularly outside the United States.

- Net results for each period have been primarily affected by: 1) the performance of our businesses — which is categorized as "core operations"; and 2) the impact of legal contingencies and other nonoperating liabilities — which is categorized as "noncore activities."

- Net income for 2007 was $80.3 million compared with net income in 2006 of $18.3 million. The current year and prior year periods were negatively affected by Chapter 11 expenses, litigation and other matters not related to core operations.

- Pre-tax income from core operations was $284.6 million for the year ended December 31, 2007 compared with $240.2 million for the prior year, an 18.5% increase over the prior year, primarily attributable to higher volumes in regions other than North America, higher selling prices to offset cost inflation, and from lower overall pension costs.

- Pre-tax operating income of our Grace Davison operating segment was $240.4 million compared with $209.1 million for the prior year, a 15% increase over the prior year, with operating margins at 12%, compared with 11.6% for the prior year. Full year operating results reflect higher sales to both refining and industrial end markets, higher selling prices that offset higher raw material costs, which increased approximately 11% year-over-year, and cost savings from productivity initiatives.

- Pre-tax operating income of our Grace Construction Products operating segment was $146.8 million compared with $138.5 million for the prior year, a 6.0% increase, reflecting higher sales volume globally, selling price increases, and positive results from productivity and cost containment initiatives, which more than offset an approximate 5% increase in raw material costs. Operating margin of 13.3% was about even with last year despite lower sales volumes in the United States.

- Net cash inflow from operating activities for the full year ended December 31, 2007 was $88.2 million, compared with a net cash inflow of $152.7 million for the prior year. The decrease in cash flow from operating activities was principally attributable to higher Chapter 11 related costs, higher working capital, dividends to joint venture partners and cash paid to resolve certain tax contingencies, offset by higher pre-tax operating income.

- Pre-tax loss from noncore activities was $(59.3) million and $(97.7) million for the years ended December 31, 2007 and 2006, respectively.

We are attempting to resolve noncore liabilities and contingencies through our Chapter 11 proceeding. Our noncore liabilities include asbestos-related litigation, environmental remediation, tax disputes and business litigation. Our operating statements include periodic adjustments to account for changes in estimates of such liabilities and developments in our Chapter 11 proceeding. These liabilities and contingencies may result in continued volatility in net results in the future.

We present the net costs of our reorganization under Chapter 11 of the U.S. Bankruptcy Code as

"Chapter 11 expenses, net of interest income," a separate caption in our Consolidated Statements of Operations. Chapter 11 expenses are not included in the measures of income from core operations or income (loss) from noncore operations.

Description of Core Business

We are engaged in specialty chemicals and specialty materials businesses on a worldwide basis through two operating segments:

Grace Davison includes:

- Refining Technologies products, including:
  - fluid catalytic cracking, or FCC, catalysts, that help to "crack" the hydrocarbon chain in distilled crude oil to produce transportation fuels, such as gasoline and diesel fuels, and other petroleum-based products; and FCC additives used to reduce sulfur in gasoline, maximize propylene production from refinery FCC units, and reduce emissions of sulfur oxides, nitrogen oxides and carbon monoxide from refinery FCC units, and
  - hydroprocessing catalysts, marketed through our Advanced Refining Technologies, LLC joint venture with Chevron Products Company, in which Grace holds a 55% economic interest, that are used in process reactors to upgrade heavy oils into lighter, more useful products by removing impurities such as nitrogen, sulfur and heavy metals, allowing less expensive feedstocks to be used in the petroleum refining process, and
- Materials Technologies products, including:
  - Silica-based and silica-alumina-based engineered materials used in:
    - industrial applications, such as rubber and tires, plastics, precision investment casting, refractory, insulating glass windows, drying applications, fulfilling various functions such as reinforcement, high temperature binding and moisture scavenging, and
    - consumer applications, as a free-flow, carrier or processing aid in food and personal care products; as a toothpaste abrasive; and for the processing and stabilization of edible oils and beverages, and
    - coatings and print media applications consisting of functional additives that: provide matting effects and corrosion protection for industrial coatings; enable enhanced media and paper quality in ink jet coatings; and act as a functional filler and retention aid in paper, and
  - sealants and coatings used in rigid food and beverage packaging, including can and closure sealants used to seal and enhance the shelf life of can and bottle contents, and coatings for cans and closures that prevent metal corrosion, protect package contents from the influence of metal and ensure proper adhesion of sealing compounds and technologies designed to reduce off-taste effects and extend the shelf-life of packaged products, and
- Specialty Technologies products, including:
  - polyolefin catalysts and catalyst supports that are essential components in the manufacture of polyethylene and polypropylene resins, and other chemical catalysts used in a variety of industrial, environmental and consumer applications, and
  - silica-based materials and chromatography columns, instruments, consumables and accessories used in analytical chemistry applications and life sciences.

Hydroprocessing catalysts are sold through Advanced Refining Technologies, LLC ("ART"), our joint venture with Chevron Products Company ("Chevron"). We report 100% of the revenues of the ART joint venture, but only receive 55% of the income after minority interest is allocated to Chevron.

Key external factors for our Refining Technologies product group are the economics of the petroleum refining industry, specifically the impacts of demand for transportation fuels and petrochemical products, and crude oil supply. FCC catalysts and some hydroprocessing catalysts are consumed at a relatively steady rate and replaced regularly, while other hydroprocessing catalysts are consumed over a period of years and replaced in an irregular pattern.

Sales of our Materials Technologies and Specialty Technologies product groups are affected by global economic conditions, including the underlying growth rate of targeted end-use applications.

Grace Construction Products includes:

- Specialty chemicals and building materials, including concrete admixtures and fibers used to improve the durability and working properties of concrete, additives used in cement processing to improve energy efficiency, enhance the characteristics of finished cement and improve ease of use, building materials used in commercial, infrastructure and residential construction and renovation to protect buildings from water, vapor and air penetration, and fire protection materials used to protect buildings in the event of fire.

Construction Products sales are primarily impacted by global non-residential construction activity and U.S. residential construction activity.

We manage the Construction Products operating segment by major geographic regions as follows:

- **Americas** —which includes North, Central and South America. Economic drivers impacting our performance in the region are our strong performance in the U.S. commercial sector and in the growing commercial construction sectors of Central and South America, offsetting a depressed U.S. new housing construction market. We have also raised selling prices to improve margins and combat rising raw material costs from our suppliers. We opened a new state of the art manufacturing plant in Mt. Pleasant, Tennessee, which has improved our manufacturing and delivery efficiencies.

- **Europe** —which includes Eastern and Western Europe, the Middle East, Africa, and India. Economic activity in this region was favorable allowing us to sell higher volumes of products into the commercial and infrastructure construction markets of Europe and the Middle East. A favorable currency exchange with the U.S. dollar was also an economic driver and we were able to optimize our processes and improve efficiencies through full operation of a new R&D facility in Poznan, Poland.

- **Asia** —which includes Asia (excluding India), the Pacific Rim Countries, Australia and New Zealand. Our economic drivers in this region lie in the double-digit growth in the commercial construction and infrastructure market, higher selling prices in all product groups, and positive results from productivity and cost containment initiatives. Openings of a new plant in Viet Nam and new technical service facility in China supported growth in this region.

Global scope —We operate our business on a global scale with approximately 67% of our revenue (see table below) and over 50% of our operating properties outside the United States. We conduct business in 41 countries and in more than 20 currencies. We manage our operating segments on a global basis, to serve global markets. Currency fluctuations in relation to the U.S. dollar affect our reported earnings, net assets and cash flows.

The table below shows the sales in each of our operating segments, and domestic and international sales, as a percentage of our total sales.

Percentage of Total Grace Sales

	2007	2006	2005
Grace Davison	**64.5 %**	63.6%	64.7%
Grace Construction Products	**35.5 %**	36.4%	35.3%
Total	**100.0 %**	100.0%	100.0%
Grace U.S.	**32.8 %**	36.5%	36.8%
Grace non-U.S.	**67.2 %**	63.5%	63.2%
Total	**100.0 %**	100.0%	100.0%

Voluntary Bankruptcy Filing

In response to a sharply increasing number of asbestos-related personal injury claims, on April 2, 2001, Grace and 61 of our United States subsidiaries and affiliates, including W. R. Grace & Co. — Conn., filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Our non-U.S. subsidiaries and certain of our U.S. subsidiaries were not included in the Chapter 11 filing.

Under Chapter 11, we have continued to operate as debtors-in-possession under court protection from creditors and claimants, while using the Chapter 11 process to develop and implement a plan for addressing the asbestos-related claims. Since the Chapter 11 filing, the bankruptcy court

has approved all motions necessary to conduct normal business activities.

On January 13, 2005, we filed an amended plan of reorganization and related documents with the bankruptcy court. The plan of reorganization is supported by committees representing general unsecured creditors and equity holders, but is not supported by committees representing asbestos personal injury claimants and asbestos property damage claimants or the representative of future asbestos claimants. On July 26, 2007, the bankruptcy court terminated our exclusive rights to propose a plan of reorganization and solicit votes thereon. As a result of the termination of these rights, any party-in-interest can propose a competing plan of reorganization. On November 5, 2007, the committee representing asbestos personal injury claimants and the representative of future asbestos claimants filed a proposed plan of reorganization with the bankruptcy court. The filing did not include a disclosure statement, trust distribution procedures, exhibits or other supporting documents. Under the terms of our proposed plan of reorganization, a trust would be established to which all pending and future asbestos-related claims would be channeled for resolution. Under the terms of the plan of reorganization proposed by the committee representing asbestos personal injury claimants and the representative of future asbestos claimants, a trust would be established to which all pending and future asbestos-related personal injury claims would be channeled for resolution. A plan of reorganization, including either of these plans and any other plan that may be filed in the future by a party-in-interest, can become effective only after a vote of eligible creditors and with the approval of the bankruptcy court and the U.S. District Court for the District of Delaware.

Summary Financial Information and Metrics

Set forth below is a chart that lists our key operating statistics, and dollar and percentage changes for the years ended December 31, 2007, 2006 and 2005. Please refer to this Analysis of Continuing Operations chart when reading Management's Discussion and Analysis of Financial Condition and Results of Operations.

In the Analysis of Continuing Operations chart, as well as in the financial information presented throughout Management's Discussion and Analysis of Financial Condition and Results of Operations, we present our financial results in the same manner as results are reviewed internally. We break out our results of operations by operating segment and between "core operations" and "noncore activities." Core operations comprise the financial results of Grace Davison, Grace Construction Products, and the costs of corporate activities that directly or indirectly support our business operations. In contrast, noncore activities comprise all other events and transactions not directly related to the generation of operating revenue or the support of our core operations and generally relate to our former operations and products. See "Pre-tax Income (Loss) from Noncore Activities" for more information about noncore activities. We use pre-tax income from core operations as the performance factor in determining certain incentive compensation and as the profitability factor in all significant business decisions.

Pre-tax income from core operations, pre-tax income (loss) from noncore activities, pre-tax income from core operations as a percentage of sales, and pre-tax income from core operations before depreciation and amortization do not purport to represent income or cash flow measures as defined under U.S. generally accepted accounting principles, and you should not consider them an alternative to such measures as an indicator of our performance. We provide these measures so you can distinguish the operating results of our current business base from the income and expenses of our past businesses, discontinued products, and corporate legacies, and the effect of our Chapter 11 proceedings, and to ensure that you understand the key data that management uses to evaluate our results of operations.

Pre-tax income from core operations has material limitations as an operating performance measure because it excludes income and expenses that comprise our noncore activities, which include, among other things, provisions for asbestos-related litigation and environmental remediation, income from insurance settlements, and legal defense costs, all of which have been material components of our net income. Pre-tax income from core operations before depreciation and amortization also has material limitations as an operating performance measure since it excludes the impact of depreciation and amortization expense. Our business is substantially dependent on the successful deployment of our capital assets; therefore, depreciation and amortization expense is a necessary element of our costs and ability to

generate revenue. We compensate for the limitations of these measurements by using these indicators together with net income as measured under U.S. generally accepted accounting principles to present a complete analysis of our results of operations. You should evaluate pre-tax income from core operations and pre-tax income from core operations before depreciation and amortization in conjunction with net income for a more complete analysis of our financial results.

Analysis of Continuing Operations *(In millions)*	2007	2006	$ Change Fav (Unfav)	% Change Fav (Unfav)	2005	$ Change Fav (Unfav)	% Change Fav (Unfav)
Net sales:							
Grace Davison	$ **2,009.2**	$ 1,797.3	$ 211.9	11.8 %	$ 1,663.2	$ 134.1	8.1 %
Refining Technologies	**971.1**	859.1	112.0	13.0 %	796.0	63.1	7.9 %
Materials Technologies	**726.7**	654.4	72.3	11.0 %	611.1	43.3	7.1 %
Specialty Technologies	**311.4**	283.8	27.6	9.7 %	256.1	27.7	10.8 %
Grace Construction Products	**1,106.0**	1,029.2	76.8	7.5 %	906.3	122.9	13.6 %
Americas	**587.1**	601.4	(14.3)	(2.4 %)	532.5	68.9	12.9 %
Europe	**380.6**	309.6	71.0	22.9 %	268.4	41.2	15.4 %
Asia	**138.3**	118.2	20.1	17.0 %	105.4	12.8	12.1 %
Total Grace net sales	$ **3,115.2**	$ 2,826.5	$ 288.7	10.2 %	$ 2,569.5	$ 257.0	10.0 %
Pre-tax operating income:							
Grace Davison (1)	$ **240.4**	$ 209.1	$ 31.3	15.0 %	$ 192.8	$ 16.3	8.5 %
Grace Construction Products (2)	**146.8**	138.5	8.3	6.0 %	115.4	23.1	20.0 %
Corporate costs:							
Support functions	**(45.9)**	(45.2)	(0.7)	(1.5 %)	(41.4)	(3.8)	(9.2 %)
Pension, performance-related compensation, and other	**(56.7)**	(62.2)	5.5	8.8 %	(65.3)	3.1	4.7 %
Total Corporate costs	**(102.6)**	(107.4)	4.8	4.5 %	(106.7)	(0.7)	(0.7 %)
Pre-tax income from core operations	**284.6**	240.2	44.4	18.5 %	201.5	38.7	19.2 %
Pre-tax income (loss) from noncore activities	**(59.3)**	(97.7)	38.4	39.3 %	(30.3)	(67.4)	NM
Interest expense	**(72.1)**	(73.2)	1.1	1.5 %	(55.3)	(17.9)	(32.4 %)
Interest income	**7.7**	7.0	0.7	10.0 %	3.6	3.4	94.4 %
Income before Chapter 11 expenses and income taxes	**160.9**	76.3	84.6	110.9 %	119.5	(43.2)	(36.2 %)
Chapter 11 expenses, net of interest income	**(86.4)**	(49.9)	(36.5)	(73.1 %)	(30.9)	(19.0)	(61.5 %)
Benefit from (provision for) income taxes	**5.8**	(8.1)	13.9	171.6 %	(21.3)	13.2	62.0 %
Net income	$ **80.3**	$ 18.3	$ 62.0	NM	$ 67.3	$ (49.0)	(72.8 %)
Key Financial Measures:							
Pre-tax income from core operations as a percentage of sales:							
Grace Davison	12.0 %	11.6 %	NM	0.4 pts	11.6 %	NM	0.0 pts
Grace Construction Products	13.3 %	13.5 %	NM	(0.2)pts	12.7 %	NM	0.8 pts
Total Core Operations	9.1 %	8.5 %	NM	0.6 pts	7.8 %	NM	0.7 pts
Total Core Operations adjusted for profit sharing of joint ventures (3)	9.7 %	9.7 %	NM	0.0 pts	8.7 %	NM	1.0 pts
Pre-tax income from core operations before depreciation and amortization	$ 398.0	$ 353.7	$ 44.3	12.5 %	$ 322.4	$ 31.3	9.7 %
As a percentage of sales	12.8 %	12.5 %	NM	0.3 pts	12.5 %	NM	0.0 pts
Depreciation and amortization	$ 113.4	$ 113.5	$ 0.1	0.1 %	$ 120.9	$ 7.4	6.1 %
Gross profit percentage (sales less cost of goods sold as a percent of sales) (4):							
Grace Davison	28.4 %	29.7 %	NM	(1.3)pts	28.5 %	NM	1.2 pts
Grace Construction Products	36.3 %	36.2 %	NM	0.1 pts	36.1 %	NM	0.1 pts
Total Grace	31.1 %	31.9 %	NM	(0.8)pts	30.9 %	NM	1.0 pts
Net Consolidated Sales by Region:							
North America	$ 1,114.9	$ 1,158.8	$ (43.9)	(3.8 %)	$ 1,087.1	$ 71.7	6.6 %
Europe Africa	1,295.7	1,071.0	224.7	21.0 %	936.1	134.9	14.4 %
Asia Pacific	502.5	443.2	59.3	13.4 %	403.2	40.0	9.9 %
Latin America	202.1	153.5	48.6	31.7 %	143.1	10.4	7.3 %
Total	$ 3,115.2	$ 2,826.5	$ 288.7	10.2 %	$ 2,569.5	$ 257.0	10.0 %

NM = Not meaningful

(1) Grace Davison pre-tax operating income includes minority interest related to the Advanced Refining Technologies joint venture.
(2) Grace Construction Products pre-tax operating income includes minority interests related to consolidated joint ventures.
(3) Reflects the add-back of minority interests in consolidated entities.
(4) Includes depreciation and amortization related to manufacturing of products.

Grace Overview

The following is an overview of our financial performance for the years ended December 31, 2007, 2006 and 2005.

Net Sales — The following table identifies the year-over-year increase or decrease in sales attributable to changes in product volume, product price and/or mix, and the impact of foreign currency translation.

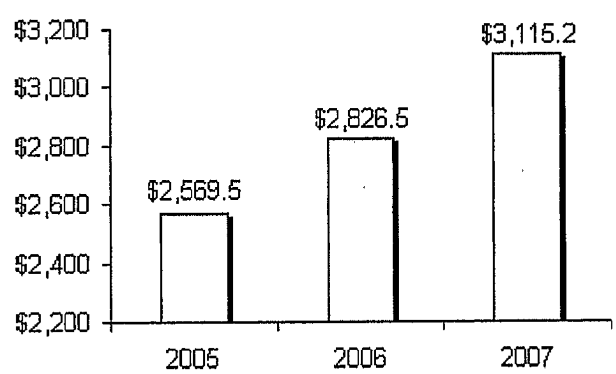
	2007 as a Percentage Increase (Decrease) from 2006			
Net Sales Variance Analysis	Volume	Price/Mix	Currency Translation	Total
Grace Davison	4.1%	4.0%	3.7%	11.8%
Grace Construction Products	0.8%	2.8%	3.9%	7.5%
Net sales	2.9%	3.6%	3.7%	10.2%
By Region:				
North America	(5.4%)	1.4%	0.2%	(3.8%)
Europe Africa	8.0%	4.9%	8.1%	21.0%
Asia Pacific	1.6%	8.9%	2.9%	13.4%
Latin America	25.0%	3.5%	3.2%	31.7%

	2006 as a Percentage Increase (Decrease) from 2005			
	Volume	Price/Mix	Currency Translation	Total
Grace Davison	5.8%	2.3%	0.0%	8.1%
Grace Construction Products	8.3%	4.9%	0.4%	13.6%
Net sales	6.7%	3.2%	0.1%	10.0%
By Region:				
North America	4.0%	2.3%	0.3%	6.6%
Europe Africa	10.1%	4.8%	(0.5%)	14.4%
Asia Pacific	7.6%	1.8%	0.5%	9.9%
Latin America	3.1%	2.5%	1.7%	7.3%

Sales for 2007 were favorably impacted by foreign currency translation, higher volumes and higher selling prices in response to rising raw material costs. Acquisitions contributed $13.1 million or 0.5 percentage points of the sales growth.

Sales for 2006 were favorably impacted by higher volume, selling price increases and product mix. Acquisitions contributed $13.2 million or 0.5 percentage points of the sales growth.

Grace Net Sales
($ in millions)



Pre-tax Income from Core Operations —Operating profit increased year-over-year for the three year period ended December 31, 2007 mainly due to improved sales volume growth and selling price increases, partially offset by raw material cost inflation.

Corporate costs include corporate functional costs (such as financial and legal services, human resources, communications and information technology), the cost of corporate governance (including directors and officers liability insurance) and pension costs related to both corporate employees and to the effects of changes in assets and liabilities for all of our pension plans. Corporate costs have decreased in each of the last two years primarily due to lower pension costs from the effect of contributions made to defined benefit pension plans.

We value our U.S. inventories under the last-in/first- out method, or LIFO, and our non-U.S. inventories under the first-in/first-out, or FIFO, method. LIFO was selected in 1974 for U.S. financial reporting and tax purposes because it generally results in a better matching of current

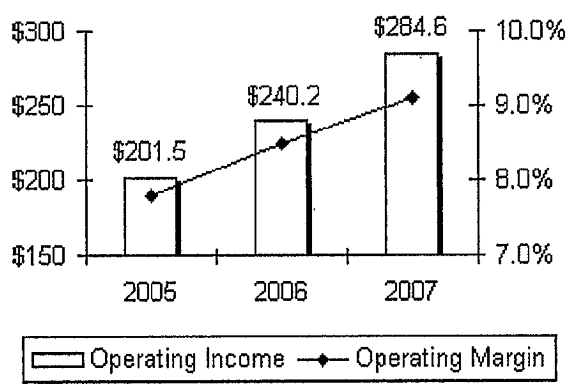
revenue with current costs during periods of inflation. We have not elected LIFO for our non-U.S. inventories due to statutory restrictions. However, if we valued our U.S. inventories using the FIFO method, consistent with our non-U.S. subsidiaries, our pre-tax income from core operations would have been approximately 4.6% higher, 6.2% lower and 6.7% higher for the years ended December 31, 2007, 2006, and 2005, respectively. The significant change in inventory valuations between FIFO and LIFO relates primarily to price increases of commodity metals and energy used in Grace Davison products and production processes. We attempt to mitigate price volatility through hedging techniques such as layering our

required supply under fixed delivery contracts, entering into commodity option and swap contracts with suppliers and financial institutions, and by negotiating sales contracts that permit the partial pass-through of market price increases for these volatile commodity items.

We normally attempt to lock in raw material costs through long-term supply contracts and targeted hedging programs. Arrangements and programs can span a few months to several years. Major raw materials include natural gas, certain metals, petroleum-based materials and certain industrial chemicals. The actual cost of these raw materials can differ significantly from spot prices at any point in time. Our reported gross profit for the periods presented has been favorably impacted by certain raw material supply arrangements and unfavorably affected by others, relative to the then-current market price. We expect that new supply agreements and hedging arrangements will result in raw material costs that can be significantly favorable or unfavorable compared with prior periods. We attempt to mitigate period-over-period commodity-driven cost changes through utilization and customer pricing strategies; however, gross profit margins are still likely to be affected when compared over time.

Within both Grace Davison and Grace Construction Products, we conduct certain business activities in various countries through joint ventures with unaffiliated third parties. Minority interest in consolidated entities decreased due to lower earnings of our joint ventures, particularly ART, our largest joint venture. ART's year-over-year net income can change materially based on refill order patterns of customers and changes in commodity-based raw materials.

Grace
Operating Income and Margin
($ in millions)



Pre-tax Income (Loss) from Noncore Activities —Pre-tax income (loss) from noncore activities reflects financial matters unrelated to our core operations. This category of costs and income is expected to be volatile as potentially material items are addressed through our Chapter 11 proceedings and/or as the financial implications of our legal contingencies become apparent. Some noncore activities are shown as separate items on the Consolidated Statement of Operations. Those not separately listed are primarily included in selling, general and administrative expenses and in other (income) expense. The table below shows the components of noncore activities, and the captions in which each component is presented in the Consolidated Statements of Operations:

(In millions)	2007	2006	2005
Provision for environmental remediation—vermiculite	**$ (14.4)**	$ (29.4)	$ (22.3)
Provision for environmental remediation—other sites	**(2.6)**	(0.6)	(2.7)
Total provision for environmental remediation	**$ (17.0)**	$ (30.0)	$ (25.0)
Insurance settlements—environmental and asbestos-related	**1.0**	12.5	44.5
COLI income, net	**5.4**	4.1	3.5
Translation effects—intercompany loan	**10.5**	23.1	(35.9)
Value of currency contracts	**(8.2)**	(21.5)	35.7
Other	**0.5**	3.9	2.4
Total other (income) expense, net	**$ 9.2**	$ 22.1	$ 50.2
Legal defense costs	**(19.2)**	(53.4)	(22.0)
D&O insurance cost—portion related to Chapter 11	**(6.0)**	(6.1)	(5.7)
Asbestos administration	**(14.7)**	(11.6)	(9.9)
Postretirement benefit income—divested businesses	**1.9**	3.5	3.0
Stock appreciation rights	**(1.9)**	(2.9)	—
Other	**(4.5)**	(7.9)	(8.4)
Total selling, general and administrative expenses	**$ (44.4)**	$ (78.4)	$ (43.0)
Net pension costs—divested businesses	**(7.1)**	(11.4)	(12.5)
Total defined benefit pension expense	**$ (7.1)**	$ (11.4)	$ (12.5)
Total pre-tax income (loss) from noncore activities	**$ (59.3)**	$ (97.7)	$ (30.3)

The change in the pre-tax loss from noncore activities from 2006 to 2007 is attributable primarily to:

- Lower environmental remediation expenses ($17.0 million in 2007 as compared to $30.0 million in 2006) to adjust our estimate of costs to resolve environmental remediation claims; and
- Lower legal defense costs of $33.7 million related to legal proceedings arising from our former vermiculite mining operations in Montana (see Note 15 to the Consolidated Financial Statements for more information).

The change in the pre-tax loss from noncore activities from 2005 to 2006 is attributable primarily to:

- An increase in legal defense costs of $31.4 million, primarily related to the Montana legal proceeding (see Note 15 to the Consolidated Financial Statements for more information), and
- $44.5 million received from insurance carriers in 2005 with respect to coverage for past environmental remediation costs and asbestos-related liability under liquidation arrangements or dispute settlements, as compared with $12.5 million in 2006.

In March 2004, we began accounting for currency fluctuations on a €293 million intercompany loan between our subsidiaries in the United States and Germany as a component of operating results instead of as a component of other comprehensive income. This change was prompted by an analysis of new tax laws in Germany and our cash flow planning in connection with our Chapter 11 reorganization, which together indicated that we should no longer consider this loan as part of our permanent capital structure in Germany. In May 2004, we entered into a series of foreign currency forward contracts with a U.S. bank to mitigate future currency fluctuations on the remaining loan balance. Contract amounts of €200.7 million were extended in June 2005 at varying rates and have terms that coincide with loan repayments due periodically through December 2008. As part of the contract extension, we were required to pay a settlement premium of $9.3 million to the bank. We expect to recover this settlement premium over time as the contracts are settled at rates greater than the initial rates in the May 2004 foreign currency forward contracts. We repaid €73.2 million and €65.9 million of loan principal in 2007 and 2006, respectively. We recognized contract losses of $10.6 million and $21.5 million in 2007 and 2006, respectively, offset by foreign currency gains of $13.6 million and $23.1 million in 2007 and 2006, respectively.

In November 2007, we executed an intercompany loan between our principal U.S. operating subsidiary and a newly established German subsidiary as part of a legal restructuring. The intercompany loan, in the amount of €250 million, is revalued each period and the change in the value due to movements in foreign currency exchange rates is recorded as a component of other (income) expense in the Consolidated Statements of Operations. In conjunction with the loan, our U.S. subsidiary entered into a series of foreign currency forward contracts to minimize the impact on earnings from foreign currency movements. The forward contracts are aligned with the payment schedule of the intercompany loan, which has annual principal and interest payments in November 2009 through November 2013. In 2007, we recognized a foreign currency exchange loss on the loan of $2.4 million, offset by a contract gain of $2.5 million.

Chapter 11 Expenses — Although we are unable to precisely measure the impact of the Chapter 11 proceedings on our overall financial performance, we incur significant added costs that are directly attributable to operating in Chapter 11. Net Chapter 11 expenses consist primarily of legal, financial and consulting fees that we, the three creditors' committees, the equity committee and the legal representative of future asbestos claimants, incur, reduced by interest income earned on cash and cash equivalents held by our entities subject to Chapter 11. We pay for the costs of all committees, and the committees' advisors. These costs fluctuate with the activity in our Chapter 11 proceedings.

An analysis of Chapter 11 costs follows:

Chapter 11 Expenses, net *(In millions)*	2007	2006	2005
Costs related to:			
Grace as debtor-in-possession	$ **62.1**	$ 39.6	$ 21.2
General Unsecured Committee	**6.0**	3.8	3.1
Asbestos Property Damage Committee	**3.0**	3.8	7.7
Asbestos Personal Injury Committee	**10.8**	5.7	3.4
Future Asbestos Claims Representative	**10.7**	4.6	1.8
Equity Committee	**2.5**	0.4	1.2
Total expenses	**95.1**	57.9	38.4
Interest earned on filing entity cash balances	**(8.7)**	(8.0)	(7.5)
Chapter 11 expenses, net	$ **86.4**	$ 49.9	$ 30.9

Chapter 11 expenses increased due to a higher level of activity in our bankruptcy proceeding related to claims adjudication and estimation. We expect that we will experience continued high levels of Chapter 11 expenses in 2008 for the duration of the proceeding.

We incur numerous other indirect costs to manage the Chapter 11 proceedings such as: management time devoted to Chapter 11 matters; added cost of debt capital; added costs of general business insurance, including D&O liability insurance premiums; and lost business and acquisition opportunities due to the complexities and restrictions of operating under Chapter 11.

Interest Expense —Interest expense decreased in 2007 as compared to 2006. The change in interest expense is attributable to reductions in the prime rate and reduced interest accruals in the second half of 2007 for certain pre-petition obligations, partially offset by the effects of compounding interest on certain liabilities subject to compromise over the course of the Chapter 11 proceeding. Interest expense increased in 2006 as compared to 2005 due to a change in the rate of interest on pre-petition bank debt (from a fixed rate to a prime rate) and the effects of compounding interest. Our plan of reorganization states that each holder of an allowed general unsecured claim shall be paid in full, plus post-petition interest. Post-petition interest shall accrue through the date of payment as follows:

- For the holders of pre-petition bank credit facilities, beginning January 1, 2006, we agreed to pay interest on pre-petition bank debt at the prime rate, adjusted for periodic changes, and compounded quarterly. The effective rates on pre-petition bank debt for the twelve months ended December 31, 2007, 2006, and 2005 were 8.1%, 8.0%, and 6.1%, respectively.

- For the holders of claims who, but for the Chapter 11 filing, would be entitled under a contract or otherwise to accrue or be paid interest on such claim in a non-default (or non-overdue payment) situation under applicable non-bankruptcy law, the rate provided in the contract between the Grace entity and the claimant or such rate as may otherwise apply under applicable non-bankruptcy law.

- For all other holders of allowed general unsecured claims, at a rate of 4.19% per annum, compounded annually, unless otherwise negotiated during the claim settlement process.

The average effective interest rates on pre-petition obligations for 2007, 2006, and 2005 were 6.3%, 6.7%, and 5.2%, respectively. Such interest, which under the plan of reorganization is payable 85% in cash and 15% in Grace common stock, will not be paid until the plan of reorganization is confirmed and funded.

Income Taxes — Income tax provision at the federal corporate rate of 35% for the years ended December 31, 2007, 2006, and 2005 was $26.1 million, $9.2 million, and $31.0 million, respectively. Our recorded tax benefit of $5.8 million for 2007 reflects a net reduction from the statutory tax benefit due to (1) tax expense of $20.1 million related to the deferred tax liability associated with the cash value of corporate owned life insurance policies in recognition of the fact that the policies would likely be surrendered as part of Grace's Chapter 11 financing plan, (2) a tax benefit in the amount of $44.8 million resulting from the reassessment of the deferred tax liability balance in relation to future repatriations of foreign earnings, (3) a tax benefit of $11.2 million related to the settlement of a 1999 tax issue involving the deduction of capital losses (see Note 4 to the Consolidated Financial Statements), (4) recognition of the favorable impact of tax rate changes in certain foreign jurisdictions on deferred tax balances, and (5) a favorable reassessment regarding the recoverability of recorded tax assets and other changes to the accrual for uncertain tax positions (see Note 4 to the Consolidated Financial Statements). In 2006, our recorded tax provision of $8.1 million reflected a net reduction from the statutory tax provision due to (1) recognition of tax benefits by a non-U.S. subsidiary prompted by published final guidance on the deductibility of certain expenses, (2) a final settlement offer issued by the United States Internal Revenue Service, (3) a favorable reassessment regarding the recoverability of recorded tax assets, and (4) an increase in the tax provision related to future repatriation of earnings from foreign subsidiaries.

As part of our evaluation and planning for the funding requirements of our plan of reorganization, we recognize that the financing of our plan of reorganization will involve cash and financing from non-U.S. subsidiaries. Accordingly, we implemented a repatriation plan in the fourth quarter of 2007 resulting in the U.S. parent company receiving payments of $442 million of which $382 million is represented by intercompany loans receivable at year-end. We maintain a deferred liability for U.S. federal, state, local and foreign income taxes related to future repatriations of approximately $10 million and have not provided for U.S. federal, state, local and foreign deferred income taxes on approximately $675 million of undistributed earnings of foreign subsidiaries that, based upon our current outlook and assumptions with respect to the amount of

bankruptcy claims and foreign liquidity needs, we expect will be retained indefinitely by such subsidiaries.

We also have significant deferred tax assets primarily associated with tax credit carryforwards and with asbestos and environmental liabilities that would reduce taxable income in future periods as such liabilities are funded. In addition, we have deferred tax liabilities resulting primarily from deferred income, plant and equipment, and pension assets that may result in taxable amounts in future periods. Valuation allowances have been established and are maintained for certain deferred tax assets that exceeded our analysis of the amounts reasonably expected to be realized in the future.

Because of our current and future state tax profile and more restrictive laws governing utilization of tax loss carryforwards, we maintain a full valuation allowance against the benefit of future state income tax deductions and loss carryforwards. The valuation allowances relating to future state tax benefits from the use of operating losses was reduced during 2007 by $25.9 million due to an equal reduction in the amount of operating losses that can be used to reduce future state taxable income. Foreign loss carryforwards and related valuation allowances increased by a net $6.4 million due primarily to the impact of changes in foreign exchange rates.

The net decrease in the valuation allowance brings our total valuation allowance at the end of 2007 to $143.0 million on net tax assets of $906.6 million. The total valuation allowance covers (1) state tax deductions with a tax value of approximately $121.0 million, which we do not expect to realize in reduced taxes due to timing limitations, and (2) foreign loss carryforwards with a tax value of $22.0 million, which are not reasonably expected to be utilized. Based upon future anticipated results, we have concluded that it is more likely than not that we will realize the remaining net recorded deferred tax asset of $763.6 million over time. A large proportion of such balance (primarily associated with asbestos- and environmental- related liabilities) is not yet time-limited as it pertains to liabilities not yet funded. Our recovery of such net tax assets could be materially affected by developments in our Chapter 11 proceeding.

Operating Segment Overview

The following is an overview of financial measures of the performance of our operating segments for the three years ended December 31, 2007, 2006 and 2005.

Grace Davison

Net Sales by Region *(In millions)*	**2007**	**2006**	**2005**
North America	**$ 578.4**	$ 599.9	$ 587.0
Europe Africa	**915.6**	761.1	667.4
Asia Pacific	**362.7**	324.4	297.5
Latin America	**152.5**	111.9	111.3
Total Grace Davison	**$ 2,009.2**	$ 1,797.3	$ 1,663.2

Percentage Change in Net Sales by Region	**2007 vs. 2006**	**2006 vs. 2005**	**2005 vs. 2004**
North America	**(3.6 %)**	2.2 %	9.2 %
Europe Africa	**20.3 %**	14.0 %	11.9 %
Asia Pacific	**11.8 %**	9.0 %	19.2 %
Latin America	**36.3 %**	0.5 %	26.9 %
Total Grace Davison	**11.8 %**	8.1 %	13.0 %

Recent Acquisitions/Divestitures

See Note 5 to the Consolidated Financial Statements for a description of acquisitions and divestitures completed in 2007 and 2006.

Sales

Grace Davison operating segment sales are reported in the following product groups:

- Refining Technologies—catalysts and chemical additives used by petroleum refineries, where sales were up 13.0% and 7.9% in 2007 and 2006, respectively, from the prior years.

- Materials Technologies—engineered materials, coatings and sealants used in numerous industrial, consumer and packaging applications, where sales were up 11.0% and 7.1% in 2007 and 2006, respectively, from the prior years; and

- Specialty Technologies—highly specialized catalysts and materials used in unique or proprietary applications and markets, where sales were up 9.7% and 10.8% in 2007 and 2006, respectively, from the prior years.

The key factors contributing to the Grace Davison sales increase over the three-year period were:

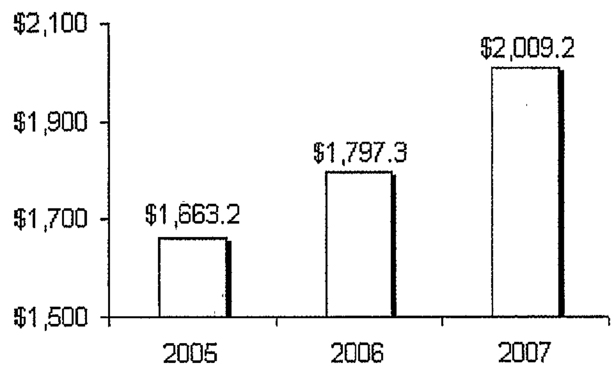
- Increased demand for catalysts used by petroleum refiners, particularly FCC catalysts used to produce clean fuels, hydroprocessing catalysts that upgrade low-quality, heavy crude oil, and a variety of industrial, consumer and packaging products.

- A generally more favorable pricing environment for our products as customers accepted pricing actions to offset escalating raw material costs.

- Pass-through of higher costs for commodity metals and surcharges to partially offset inflation in certain commodity metals.

European sales increased over the three-year period due to growth in volume, higher selling prices in response to raw material inflation, and favorable effects of currency movements. North American sales were unfavorably impacted by re-order patterns for certain hydroprocessing units and the loss of one customer in Canada. Asia Pacific and Latin America sales increased with strong volume growth from product line portfolio extensions to these regions.

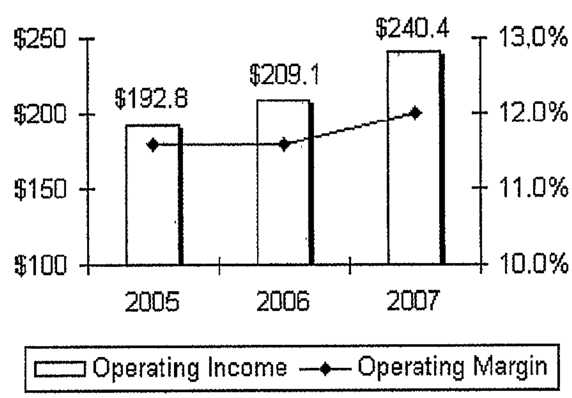
Grace Davison Net Sales
($ in millions)



Operating Income and Margin

- Pre-tax operating income for the Grace Davison segment increased over the prior year, with operating margins at 12.0% compared with 11.6% for the prior year. Full year operating results reflect higher sales to both refining and industrial end markets, higher selling prices which offset higher raw material costs, and cost savings from productivity initiatives, partially offset by higher raw material costs that have increased approximately 11% year-over-year.

Grace Davison
Operating Income and Margin
($ in millions)



Grace Construction Products

Net Sales by Product Group *(In millions)*	**2007**	**2006**	**2005**
Construction Chemicals	$ 744.3	$ 694.0	$ 608.0
Building Materials	361.7	335.2	298.3
Total Grace Construction Products	**$ 1,106.0**	$ 1,029.2	$ 906.3

Percentage Change in	**2007 vs.**	**2006 vs.**	**2005 vs.**

Net Sales by Product Group	**2006**	**2005**	**2004**
Construction Chemicals	7.2 %	14.1 %	16.4 %
Building Materials	7.9 %	12.4 %	12.1 %
Total Grace Construction Products	7.5 %	13.6 %	14.9 %

Sales

Sales of this operating segment are grouped along geographic regions as follows:

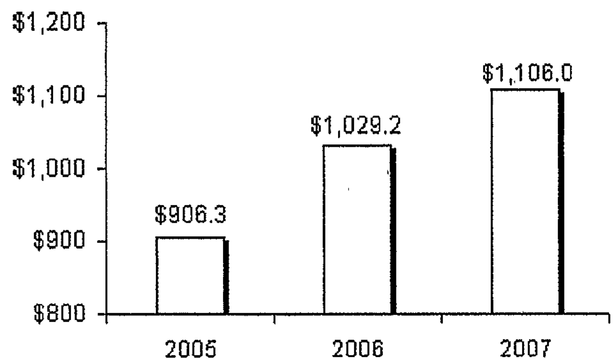
- Americas—products sold to customers in North, Central and South America, where sales were down 2.4% and up 12.9% in 2007 and 2006, respectively, from the prior years;
- Europe—products sold to customers in Eastern and Western Europe, the Middle East, Africa and India, where sales were up 22.9% and 15.4% in 2007 and 2006, respectively, from the prior years; and
- Asia—products sold to customers in Asia (excluding India), Pacific Rim countries, Australia and New Zealand, where sales were up 17.0% and 12.1% in 2007 and 2006, respectively, from the prior years.

The key factors contributing to the increase in sales from our Grace Construction Products operating segment over the three-year period were:

- Strategic focus on regional management structure and investment in operations drove positive results in growth areas;
- Higher volume of products sold into commercial and infrastructure construction in Europe, the Middle East, Asia Pacific, and Latin America, where economic activity was favorable;
- Higher selling prices in all major geographic regions and product groups; and
- Favorable translation effects from sales denominated in foreign currencies.

Sales growth was attributable to growth in Europe and Asia, offset by softness in the Americas from a nearly 28% decline in housing starts in the United States.

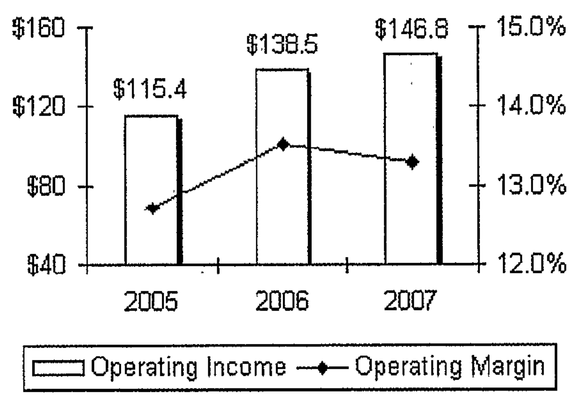
Grace Construction Products Net Sales
($ in millions)



Operating Income and Margin

Grace Construction Products 2007 operating income increased compared with 2006, reflecting higher sales volume globally, selling price increases, and positive results from productivity and cost containment initiatives, which more than offset an approximate 5% increase in raw material costs. Operating margin of 13.3% was about even with last year despite lower sales volumes in the United States.

Grace Construction Products
Operating Income and Margin
($ in millions)



Operating Returns on Assets Employed — The following tables set forth the Grace Davison and Grace Construction Products total asset position and pre-tax return on average total assets as of December 31, 2007, 2006 and 2005. We use the measure pre-tax return on average total assets as an indicator of our efficiency in using our assets and allocating our resources to generate earnings. We devote significantly higher capital to the manufacture of Grace Davison products than to the manufacture of Grace Construction Products products. Conversely, non-manufacturing costs, particularly selling expenses, are significantly higher for Grace Construction Products than for Grace Davison.

Grace Davison *(In millions)*	2007	2006	2005
Trade receivables	**$ 295.9**	$ 234.8	$ 227.0
Inventory	**239.7**	230.5	214.1
Other current assets	**31.5**	25.7	32.4
Total current assets	**567.1**	491.0	473.5
Properties and equipment, net	**484.7**	463.3	449.9

Goodwill and other intangible assets	**116.4**	116.3	105.3
Other assets	**17.4**	2.0	3.0
Total assets	**$ 1,185.6**	$ 1,072.6	$ 1,031.7
Pre-tax return on average total assets	**21.1 %**	19.2 %	18.4 %

Grace Davison's total assets increased by $113.0 million in 2007 compared with the prior year. The increase was primarily due to higher trade receivables from strong 2007 fourth quarter sales, coupled with $50.7 million in higher foreign currency translation reflecting a weaker U.S. dollar period over period.

Grace Construction Products

(In millions)	2007	2006	2005
Trade receivables	**$201.2**	$190.7	$174.0
Inventory	**63.9**	54.1	64.2
Other current assets	**9.5**	6.9	7.6
Total current assets	**274.6**	251.7	245.8
Properties and equipment, net	**194.6**	181.0	167.2
Goodwill and other intangible assets	**88.2**	85.3	86.4
Other assets	**4.2**	3.2	3.5
Total assets	**$561.6**	$521.2	$502.9
Pre-tax return on average total assets	**26.1%**	26.2%	22.8%

Grace Construction Products' total assets increased by $40.4 million in 2007 compared with the prior year. The increase was primarily due to higher properties and equipment from increased capital investment in new production plants, coupled with $24.7 million in higher foreign currency translation due to a weaker U.S. dollar period over period.

Noncore Liabilities

We have a number of financial exposures originating from past businesses, products and events. These obligations arose from transactions and/or business practices that date to when Grace was a much larger company, when we produced products or operated businesses that are no longer part of our revenue base, when government regulation was less stringent and when scientific knowledge with respect to such businesses and products was much less advanced than today.

The following table summarizes our net noncore liabilities at December 31, 2007 and December 31, 2006:

Net Noncore Liabilities *(In millions)*	December 31, 2007	December 31, 2006
Asbestos-related liabilities	**$ (1,700.0)**	$ (1,700.0)
Asbestos-related insurance receivable	**500.0**	500.0
Asbestos-related liability, net	**(1,200.0)**	(1,200.0)
Environmental remediation	**(368.6)**	(361.1)
Postretirement benefits	**(84.0)**	(72.7)
Income taxes	**(89.3)**	(141.2)
Retained obligations and other	**(36.2)**	(23.3)
Net noncore liability	**$ (1,778.1)**	$ (1,798.3)

The resolution of most of these noncore recorded and contingent liabilities will be determined through the Chapter 11 proceedings. We cannot predict with any certainty how, and for what amounts, any of these contingencies will be resolved. The amounts of these liabilities as ultimately determined through the Chapter 11 proceedings could be materially different from amounts we recorded at December 31, 2007.

Grace Plan of Reorganization

As described under "Voluntary Bankruptcy Filing" in Notes 1 and 2 to the Consolidated Financial Statements, Grace and our principal U.S. operating subsidiary are debtors-in-possession under Chapter 11 of the bankruptcy code. Our non-U.S. subsidiaries, although not part of the Chapter 11 filing, are owned directly or indirectly by our principal operating subsidiary or other filing entities. Consequently, we expect that any Chapter 11 plan of reorganization, including our proposed plan of reorganization, will involve the combined value of our global businesses and other assets to fund (with cash and/or securities) our obligations as adjudicated through the bankruptcy process. We have analyzed our cash flow and capital needs to continue to fund our businesses and believe that, while in Chapter 11, sufficient cash flow and credit facilities are available to support our business strategy.

On January 13, 2005, we filed a plan of reorganization and related documents that amended our original plan of reorganization and disclosure statement filed on November 13, 2004 to address certain objections of creditors and other interested parties. Our plan of reorganization is supported by committees representing general unsecured creditors and shareholders, but is not supported by committees representing asbestos personal injury claimants and asbestos property damage claimants or the representative of future asbestos claimants.

On November 5, 2007, the committee representing asbestos personal injury claimants and the representative of future asbestos claimants filed a proposed plan of reorganization with the bankruptcy court. The filing did not include a disclosure statement, trust distribution procedures, exhibits or other supporting documents. Under the terms of our proposed plan of reorganization, a trust would be established to which all pending and future asbestos-related claims would be channeled for resolution. Under the terms of the plan of reorganization proposed by the committee representing asbestos personal injury claimants and the representative of future asbestos claimants, a trust would be established to which all pending and future asbestos-related personal injury claims would be channeled for resolution. A plan of reorganization, including either of these plans and

any other plan that may be filed in the future by a party-in-interest, can become effective only after a vote of eligible creditors and with the approval of the bankruptcy court and the U.S. District Court for the District of Delaware.

See Note 2 to the Consolidated Financial Statements for more information on these plans of reorganization.

Risks of Our Plan of Reorganization —We intend to address all pending and future asbestos-related claims and all other pre-petition claims as outlined in our plan of reorganization. However, we may not be successful in obtaining approval of our plan of reorganization by the bankruptcy court. Instead, a materially different plan of reorganization may ultimately be approved and, under the ultimate plan of reorganization, the interests of our shareholders could be substantially diluted or cancelled. The value of Grace common stock following a plan of reorganization, and the extent of any recovery by non-asbestos-related creditors, will depend principally on the amount of our asbestos-related liability under a confirmed plan of reorganization.

Our proposed plan of reorganization assumes several fundamental conditions including that:

- Our asbestos-related liabilities can be resolved at a net present value cost of no more than $1,700 million, including pre-petition asbestos-related contractual settlements and judgments, all property damage claims, all claims related to our former Zonolite Attic Insulation product, and all pending and future personal injury claims; and

- The benefit of assets from litigation settlement agreements with Sealed Air Corporation and its subsidiary, Cryovac, Inc., and Fresenius Medical Care Holdings, Inc. will be available to satisfy liabilities under our plan of reorganization.

There can be no guarantee that these two fundamental conditions can be met. The measure of our asbestos-related liabilities could be settled by the bankruptcy court (in conformity with the plan of reorganization or otherwise), by a negotiation with interested parties, and/or under an alternative plan.

Any resolution, other than that reflected in our plan of reorganization, could have a material adverse effect on the percentage of Grace common stock to be retained by our current shareholders beyond that reflected in the proforma financial information presented below. We will adjust our financial statements and the proforma effects of our plan of reorganization as facts and circumstances warrant.

The following table summarizes our estimated claims payable, by class of claim, at the date of emergence and those claims that will be reinstated, as of December 31, 2007.

Analysis of Claims and Interest in Plan of Reorganization—Amounts as of December 31, 2007
(In millions) (Unaudited)

Description of Claims	Estimated Effective Date Liabilities: Base Claim	Estimated Effective Date Liabilities: Interest	Estimated Effective Date Liabilities: Total	Reinstated Liabilities	Total Liabilities Subject to Compromise
Administrative Expense Claims:					
Environmental—reserve for owned sites	$ 2.3	$ —	$ 2.3	$ 44.3	$ 46.6
Special pension arrangements	14.8	—	14.8	—	14.8
Leases	—	—	—	4.6	4.6
Letter of credit fees	3.0	—	3.0	—	3.0
Total Administrative Expense Claims	**20.1**	**—**	**20.1**	**48.9**	**69.0**
Priority Tax Claims	**2.7**	**4.2**	**6.9**	**82.4**	**89.3**
Class 3—Unsecured Employee-Related Claims					
Postretirement health benefits	—	—	—	77.2	77.2
Special pension arrangements	—	—	—	83.9	83.9
Total Class 3 Claims	**—**	**—**	**—**	**161.1**	**161.1**
Classes 6, 7, and 8—Asbestos Claims					
Asbestos PI-SE, PI-AO, and PD claims	1,483.0	—	1,483.0	130.0	1,613.0
Class 9—General Unsecured Claims					
Revolving credit facility—bank debt	500.0	283.0	783.0	—	783.0
Letters of credit (drawn) / capital leases	23.6	3.3	26.9	—	26.9
Total Debt / LOCs / Capital Leases	**523.6**	**286.3**	**809.9**	**—**	**809.9**
Environmental, Accounts Payable, Litigation and Other	**421.4**	**61.8**	**483.2**	**52.0**	**535.2**
Total Class 9 Claims	**945.0**	**348.1**	**1,293.1**	**52.0**	**1,345.1**
Total Claims	**$ 2,450.8**	**$ 352.3**	**$ 2,803.1**	**$ 474.4**	**$ 3,277.5**

There are no Class 2 (Secured Claims), Class 4 (Workers' Compensation Claims) or Class 5 (Intercompany Claims) outstanding as of December 31, 2007.

Proforma Financial Information —The unaudited proforma financial information presented below reflects the accounting effects of our proposed plan of reorganization (1) as if it were put in effect on the date of our most recent consolidated balance sheet—December 31, 2007, and (2) as if it were in effect for the full year ended December 31, 2007. Proforma adjustments for tax effects have been applied at a 35% tax rate. The proforma financial information included herein may not be consistent with our plan of reorganization documents filed on January 13, 2005 due to subsequent changes in operations and accounting estimates. Such proforma financial statements reflect how our assets, liabilities, equity and income would be affected by our plan of reorganization as follows:

A. Borrowings Under New Debt Agreements and Contingencies

Our plan of reorganization reflects the assumption that $1,000 million in debt financing will be available to fund settled claims payable at the effective date of the plan of reorganization (approximately $800 million) and to provide working capital (approximately $200 million) for continuing operations. No such financing currently exists but, we expect, based on discussions with prospective lenders, our sustained level of core operations while we have operated under Chapter 11, and publicly available information regarding funding available to comparable companies, that we could obtain financing at this level before our plan of reorganization is effective. In addition, the proforma financial information reflects $150 million in contingencies to pay professional and bank fees, other non-operating liabilities and their related tax effects that will not become liabilities until the effective date of our plan of reorganization. The $26.3 million adjustment to increase deferred taxes reflects the tax impact on $150 million in contingencies as described above, of which we estimate 50% would be deductible for tax purposes. Proforma adjustments related to the borrowings under new debt financing and contingencies have been denoted by the capital letter **"A"** in the proforma balance sheet presented below.

B. Fresenius and Sealed Air Settlements

Our plan of reorganization reflects the value, in the form of cash and securities, expected to be realized under litigation settlement agreements as follows: $115.0 million of cash from Fresenius; and, $1,087.4 million of estimated value from Cryovac, Inc., a subsidiary of Sealed Air (calculated as of December 31, 2007) in the form of $512.5 million of cash plus accrued interest at 5.5% from December 21, 2002 compounded annually (approximately $158.4 million), and 18 million shares of Sealed Air common stock valued at $23.14 per share (approximately $416.5 million). Tax accounts have been adjusted to reflect the satisfaction of our recorded liabilities by way of these third-party agreements. The Fresenius settlement amount will be payable directly to Grace and will be accounted for as income; however, we have presented the amount of the settlement as a proforma balance sheet adjustment only in order to avoid distorting the predictive value of the proforma statement of operations with this one-time gain. Payments under the Sealed Air settlement will be paid directly to the asbestos trust by Cryovac and will be accounted for as satisfaction of a portion of our recorded asbestos-related liability and a credit to shareholders' equity. Both the Sealed Air and Fresenius settlements are subject to the fulfillment of specified conditions. The $(40.3) million adjustment to deferred income taxes in the proforma balance sheet represents the tax impact of the $115.0 million Fresenius settlement. The $(380.6) million adjustment to deferred income taxes represents the tax impact of the $1,087.4 million Sealed Air settlement. Proforma adjustments related to the Fresenius and Sealed Air settlements have been denoted by the capital letter **"B"** in the proforma balance sheet presented below.

C. Payment of Pre-Petition Liabilities

The plan of reorganization reflects the transfer of funds and securities to settle estimated obligations payable under our plan of reorganization at the effective date. We would be required to issue approximately 22.5 million shares of Grace common stock, based on the closing price per share of $26.18 on December 31, 2007, for total proceeds of $589.6 million, and utilize cash of $1,176.1 million to settle these estimated obligations (see the adjustments denoted by the capital letter **"C"** in the proforma balance sheet below). The following table provides a calculation of the proforma share issuance:

Proforma Issuance of Shares *($ and shares in millions) (Unaudited)*		December 31, 2007
Payment of asbestos claims	$	482.6
Less: portion related to general unsecured claims		(87.0)
	$	395.6
Value of unsecured claims paid with equity (15%)		194.0
Equity value distributable at emergence (22.5 million shares)	$	589.6
Equity value distributable post-emergence for PI-AO claims (5.0 million shares)		130.0
Total value of equity to satisfy claims	$	719.6
Closing price of shares at 12/31/07	$	26.18
Proforma shares to satisfy asbestos and general unsecured claims and post-emergence PI-AO claims		27.5
Add: Shares issuable upon exercise of in-the-money stock options		1.9
Proforma issuance of shares		29.4

In our proforma presentation, we have assumed that our emergence from bankruptcy will give rise to 1) the payment of pre-petition liabilities, 2) the Fresenius/Sealed Air payments, and 3) the securing of emergence financing by non-U.S. subsidiaries and payment of dividends as further described below.

The payments result in changing the nature of our tax assets from reserves for tax-deductible obligations such as asbestos claims and environmental claims to time-limited tax net operating losses (see the adjustments denoted by the capital letter **"D"** in the proforma balance sheet below). We have assumed non-asbestos and pass-through liabilities will be paid in cash when due. A portion of the funding required to meet our emergence obligations will involve repatriating monies through a dividend from certain non-U.S. subsidiaries. We believe that the reserve related to repatriation of funds presently recorded will be adequate to absorb the U.S. tax effects of this dividend, assuming that we employ (as intended) certain tax planning strategies to preserve our net operating losses.

The following table presents a detailed description of the proforma tax effects of these payments on the balance of both (i) net operating loss carryforwards and (ii) temporary differences, net of valuation allowance.

Summary of Change in Deferred Tax Asset Balances *(In millions) (Unaudited)*	Tax Effects of Net Operating Loss Carry-Forwards	Temporary Differences, Net of Valuation Allowance
December 31, 2007 Balance As Reported	$ —	$ 767.5
Proforma Adjustments:		
Contingent liabilities	—	26.3
Fresenius payment	(40.3)	—
Sealed Air payment	—	(380.6)
Emergence Payments & Other:		
Accrued interest	70.7	(70.7)
Asbestos claims	168.9	(168.9)
Environmental claims	105.2	(105.2)
Special pensions	5.2	(5.2)
Insurance recovery	(175.0)	175.0
Repatriation of foreign earnings	(10.0)	10.0
Other	10.3	(10.3)
Subtotal	175.3	(175.3)
December 31, 2007 Proforma Balance	$ 135.0	$ 237.9

D. Proforma Consolidated Statement of Operations and Capital Structure

The proforma income adjustments to our December 31, 2007 Consolidated Statements of Operations consist of:

- The elimination of all recorded charges and expenses directly related to Chapter 11, as these costs would not continue after effectiveness of our plan of reorganization, and the elimination of provisions recorded for environmental remediation obligations as we expect this risk would be resolved under our plan of reorganization (these eliminations are denoted by the capital letter **"E"** in the proforma statements of operations below);

- Adjustments to reduce Selling, General and Administrative Expenses and Other Income to eliminate noncore legal expenses, and noncore insurance income related to asbestos litigation, as the liabilities to which these noncore activities relate would be resolved as part of our plan of reorganization (these adjustments are denoted by the letter **"F"** in the proforma statements of operations below);

- The elimination of interest expense associated with pre-petition bank debt, and the addition of interest expense associated with the new $1,000 million in financing as discussed above, which results in the net change in interest expense denoted by the adjustments marked by the letter **"G"** in the proforma statements of operations below;

- The tax effects of the proforma statements of operations adjustments at our effective tax rate (see the adjustments denoted by the capital letter "H" in the proforma statements of operations below); and

- The addition of new shares of Grace common stock related to the assumed financing of our plan of reorganization (see the adjustments denoted by the capital letter "I" in the proforma statements of operations below).

Proforma expenses reflect an assumed 7.4% average interest rate on outstanding borrowings, based on market conditions as of December 31, 2007. A hypothetical 1/8 percent variance in interest rates would increase or decrease our proforma net income by approximately $0.7 million for the year ended December 31, 2007.

For purposes of proforma earnings per share and proforma share capital, we used the trading price of $26.18 per share as of December 31, 2007 for calculating issued and outstanding shares. At this per share valuation, we assume that 22.5 million shares will be issued at the effective date of our plan of reorganization to fund asbestos and general unsecured claims, 5.0 million shares would be issuable upon exercise of warrants to satisfy our estimate of PI-AO claims, and 1.9 million shares would be issued upon exercise of in-the-money stock options. We use the year-end trading value solely to show proforma Consolidated Statements of Operations. This trading value may not be indicative of the actual trading value of Grace common stock following the effective date of our plan of reorganization. If our distributable value per share at the effective date of our plan of reorganization is at or below approximately $8.00 per share, we would be required to revalue our balance sheet for a change in control. (The trading value of Grace common stock over the twelve-month period ended December 31, 2007 was between $18.86 and $30.65 per share.) These proforma financial statements reflect no change in assets or income related to this potential accounting outcome.

E. Non-asbestos Contingencies

The accompanying proforma financial information assumes all non-asbestos related contingencies (including environmental, tax and civil and criminal litigation) are settled for recorded amounts as of December 31, 2007. Certain liabilities are assumed to be paid at the effective date of our plan of reorganization based on our estimate of amounts that will be determinable and payable. The remainder, which would also be subject to our plan of reorganization, if approved, is assumed to be paid subsequent to the effective date of our plan of reorganization as amounts are either not due until a later date or will be determined through post-effective-date litigation. The ultimate value of such claims may change materially as Chapter 11 and other legal proceedings further define our non-asbestos related obligations.

W. R. Grace & Co and Subsidiaries
Proforma Condensed Consolidated Balance Sheet
(In millions) (Unaudited)

	December 31, 2007 As Reported	Proforma Adjustments: Borrowings Under New Debt Agreements and Contingencies	Proforma Adjustments: Sealed Air/Fresenius Settlements	Proforma Adjustments: Payment of Pre-Petition Liabilities	December 31, 2007 Proforma
ASSETS					
Current Assets					
Cash and cash equivalents	$ 480.5	$ 800.0 A	$ 115.0 B	$ (1,176.1) C	$ 219.4
Other current assets	1,098.0	—	—	—	1,098.0
Total Current Assets	1,578.5	800.0	115.0	(1,176.1)	1,317.4
Non-current operating assets	1,023.0	—	—	—	1,023.0
Deferred income taxes:					
Net operating loss carryforwards	—	—	(40.3) B	175.3 D	135.0
Temporary differences, net of valuation allowance	767.5	26.3 A	(380.6) B	(175.3) D	237.9
Asbestos-related insurance	500.0	—	—	—	500.0
Total Assets	$ 3,869.0	$ 826.3	$ (305.9)	$ (1,176.1)	$ 3,213.3
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)					
Total current liabilities	$ 521.1	$ —	$ —	$ —	$ 521.1
Long-term debt	0.3	800.0 A	—	—	800.3
Other noncurrent liabilities	456.7	—	—	—	456.7
Total Liabilities Not Subject to Compromise	978.1	800.0	—	—	1,778.1
Pre-petition bank debt plus accrued interest	783.0	—	—	(783.0) C	—
Drawn letters of credit plus accrued interest	26.9	—	—	(26.9) C	—
Asbestos-related contingencies	1,700.0	—	(1,087.4) B	(482.6) C	130.0
Environmental contingencies	368.6	—	—	(300.7) C	67.9
Postretirement benefits	172.7	—	—	(14.8) C	157.9
Income tax contingencies	89.3	—	—	(6.9) C	82.4
Other liabilities and accrued interest	137.0	—	—	(100.8) C	36.2
Other nonoperating liabilities, including plan of reorganization contingencies	—	150.0 A	—	(50.0) C	100.0
Total Liabilities Subject to Compromise	3,277.5	150.0	(1,087.4)	(1,765.7)	574.4
Total Liabilities	4,255.6	950.0	(1,087.4)	(1,765.7)	2,352.5
Shareholder's Equity (Deficit)					
Share capital	432.3	—	—	589.6 C	1,021.9
Retained earnings and other equity items	(818.9)	(123.7) A	781.5 B	—	(161.1)
Total Shareholders' Equity (Deficit)	(386.6)	(123.7)	781.5	589.6	860.8
Total Liabilities and Shareholders' Equity (Deficit)	$ 3,869.0	$ 826.3	$ (305.9)	$ (1,176.1)	$ 3,213.3

Note: Proforma amounts in liabilities subject to compromise will be reclassed to liabilities not subject to compromise after the proposed plan is in effect.

W. R. Grace & Co. and Subsidiaries
Proforma Consolidated Statement of Operations
(In millions, except per share amounts) (Unaudited)

	Year Ended December 31, 2007: As Reported	Proforma Adjustments	Proforma
Net Sales	$ 3,115.2	$ —	$ 3,115.2
Cost of goods sold	2,147.4	—	2,147.4
Selling, general and administrative expenses	600.6	(40.0) F	560.6
Research and development expenses	79.6	—	79.6
Defined benefit pension expense	52.6	—	52.6
Interest expense and related financing costs	72.1	(11.3) G	60.8
Provision for environmental remediation	17.0	(17.0) E	—
Chapter 11 expenses, net of interest income	86.4	(86.4) E	—
Other (income) expense, net	(33.1)	1.0 F	(32.1)
Total costs and expenses	3,022.6	(153.7)	2,868.9
Income before income taxes and minority interest	92.6	153.7	246.3
Benefit from (provision for) income taxes	5.8	(42.3) H	(36.5)
Minority interest in consolidated entities	(18.1)	—	(18.1)
Net income	$ 80.3	$ 111.4	$ 191.7
Basic earnings per common share	$ 1.15	$ —	$ 2.03
Weighted average number of basic shares	70.1	24.4 I	94.5
Diluted earnings per common share	$ 1.12	$ —	$ 1.90
Weighted average number of diluted shares	71.6	29.4 I	101.0

Financial Condition, Liquidity and Capital Resources

Chapter 11-Related Information— See Note 2 to the Consolidated Financial Statements.

Asbestos-Related Litigation— See Note 3 to the Consolidated Financial Statements.

Environmental Matters — See Note 15 to the Consolidated Financial Statements.

Defined Contribution Retirement Plans — We sponsor a defined contribution retirement plan for our employees in the United States. This plan qualifies under section 401(k) of the U.S. tax code. At the present time, we contribute an amount equal to 100% of employee contributions, up to 6% of an individual employee's salary or wages. Our costs related to this benefit plan were $12.4 million, $14.0 million, and $13.0 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Defined Benefit Pension Plans — We sponsor defined benefit pension plans for our employees in the United States, Canada, the United Kingdom, Australia, Germany, Italy, France, Spain, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico and fund government sponsored programs in other countries where we operate. Certain of our sponsored plans are advance-funded and others are pay-as-you-go. The advance-funded plans are administered by trustees who direct the management of plan assets and arrange to have obligations paid when due out of a trust. The most significant advance-funded plans cover our salaried employees in the U.S. and U.K. and employees covered by collective bargaining agreements at certain of our U.S. facilities.

The following tables present the components of net pension expense and cash contributions for the advance-funded and pay-as-you-go plans:

Components of Net Pension Expense *(In millions)*	2007	2006	2005
Annual pension benefits earned	**$ 23.8**	$ 24.7	$ 23.3
Interest on opening liability—advance-funded plans	**66.7**	65.2	64.7
Expected return on plan assets	**(80.0)**	(71.3)	(66.6)
Net financing cost (benefit) of advance-funded plans	**(13.3)**	(6.1)	(1.9)
Interest on opening liability—pay-as-you-go plans	**12.2**	10.8	10.3
Net pension financing cost (benefit)	**(1.1)**	4.7	8.4
Amortization of:			
Plan changes related to prior service	**3.1**	3.2	5.8
Accumulated differences between actual and assumed performance [(1)]	**26.4**	31.1	31.0
Net curtailment and settlement loss	**0.4**	—	3.4
Net pension catch-up expense	**29.9**	34.3	40.2
Total Net Pension Expense	**$ 52.6**	$ 63.7	$ 71.9

Cash Contributions to Defined Benefit Pension Plans *(In millions)*	2007	2006	2005
U.S. advance-funded plans	**$ 76.0**	$101.4	$ 24.1
U.S. pay-as-you-go plans	**5.1**	5.2	10.9
Foreign advance-funded plans	**18.3**	9.5	7.6
Foreign pay-as-you-go plans	**6.3**	5.4	5.1
Total Cash Contributions	**$105.7**	$121.5	$ 47.7

(1) Primarily related to return on assets, termination, and mortality.

The following table presents the funded status of fully-funded, underfunded, and unfunded pension plans:

Funded Status of Pension Plans	Fully-Funded (1) Pension Plans			Underfunded (1) Pension Plans			Unfunded (2) Pension Plans		
(In millions)	2007	2006	2005	2007	2006	2005	2007	2006	2005
Projected benefit obligation	$ 254.8	$ 243.8	$ 218.7	$ 948.3	$ 961.4	$ 1,017.7	$ 245.9	$ 227.8	$ 222.1
Fair value of plan assets	308.9	282.2	232.8	779.2	738.5	649.8	—	—	—
Funded status (PBO basis)	$ 54.1	$ 38.4	$ 14.1	$ (169.1)	$ (222.9)	$ (367.9)	$ (245.9)	$ (227.8)	$ (222.1)
Benefits paid	$ (11.5)	$ (10.4)	$ (9.0)	$ (85.3)	$ (88.0)	$ (81.2)	$ (11.5)	$ (10.4)	$ (15.9)

(1) Plans intended to be advance-funded.
(2) Plans intended to be pay-as-you-go.

Fully-funded plans include several defined benefit pension plans where the fair value of the plan assets exceeds the projected benefit obligation, or PBO. This group of plans was overfunded by $54.1 million as of December 31, 2007, and the overfunded status is reflected as "overfunded defined benefit pension plans" in the Consolidated Balance Sheet. Underfunded plans include a group of defined benefit pension plans that are underfunded on a PBO basis by a total of $169.1 million as of December 31, 2007. Additionally, we have several plans that are funded on a pay-as-you-go basis, and therefore, the entire PBO of $245.9 million at December 31, 2007 is unfunded. The combined balance of the underfunded and unfunded plans was $415.0 million as of December 31, 2007 and is presented as a liability on the Consolidated Balance Sheet as follows - $12.5 million in "other current liabilities," $169.1 million included in "underfunded defined benefit pension plans", $137.9 million included in "unfunded pay-as-you-go defined benefit pension plans", and $95.5 million in "liabilities subject to compromise."

Beginning in 2007, on a quarterly basis, we analyze pension assets and pension liabilities along with the resulting funded status and update our estimate of these measures. Funded status is adjusted for contributions, benefit payments, actual return on assets, current discount rates and other identifiable and material actuarial changes.

At the December 31, 2007 measurement date for the U.S. advance-funded defined benefit pension plans, the PBO was approximately $932 million as measured under U.S. generally accepted accounting principles. The PBO is measured as the present value (using a 6.25% discount rate as of December 31, 2007) of vested and non-vested benefits earned from employee service to date, based upon current services and estimated future pay increases for active employees. Of the participants in the pension plans, approximately 82% are current retirees or employees of our former businesses, which skews the payout pattern to the nearer term. Assets available to fund the PBO at December 31, 2007 were approximately $774 million, or approximately $158 million less than the measured obligation.

It is our intention to satisfy obligations under the pension plans and to comply with the requirements of the Employee Retirement Income Security Act of 1974. On June 20, 2007, we obtained bankruptcy court approval to fund minimum required payments of approximately $54 million for the period from July 2007 through January 2008. In that regard, we contributed approximately $9 million in July 2007 and approximately $15 million in each of September 2007, October 2007, and January 2008 to the trusts that hold assets of the Plans. While we intend to continue to fund all minimum required payments under the Plans, there can be no assurance that the bankruptcy court will continue to approve the funding needs of the Plans. Contributions to non-U.S. plans are not subject to bankruptcy court approval and we intend to fund such plans based on applicable legal requirements, and actuarial and trustee recommendations; $24.6 million was funded in 2007.

Total pension expense for 2007 was approximately $53 million, and benefit payments to retirees aggregated approximately $108 million for all pension programs in 2007.

Postretirement Benefits Other Than Pensions — We provide certain health care and life insurance benefits for retired employees, a large majority of whom are retirees of divested businesses. These plans are unfunded, and we pay the costs of benefits under these plans as they are incurred. Our share of benefits under this program was $9.8 million in 2007, compared with $13.9 million during 2006. We received Medicare subsidy payments of $4.8 million in 2007. Our recorded liability for postretirement benefits of $84.0 million at December 31, 2007 is stated at net present value

discounted at 6.25% (as discussed under Defined Benefit Pension Plans). Our proposed plan of reorganization provides for the continuation of these benefits.

Tax Matters— See Note 4 to the Consolidated Financial Statements and "Income Taxes" above for further discussion of our tax accounting and tax contingencies.

Other Contingencies— See Note 15 to the Consolidated Financial Statements for a discussion of our other contingent matters.

Cash Resources and Available Credit Facilities — At December 31, 2007, we had cash and cash equivalents of $480.5 million, short-term investment securities of $100.9 million, and net cash value of life insurance of $81.0 million.

Investment securities of $100.9 million and $2.4 million at December 31, 2007 and 2006, respectively, consist of direct or indirect investments in debt securities. Prior to the fourth quarter of 2007, our investment in the Columbia Strategic Cash Fund was classified in cash and cash equivalents as redemptions were available in cash. In December 2007, the fund began an orderly liquidation that is expected to continue through 2008 and restricted redemptions to an in-kind distribution of securities held by the fund. We have elected to remain in the fund and to value the fund based on the underlying securities as determined by the fund principals. The strategic cash investment fund was valued at $98.3 million at December 31, 2007, which includes an impairment loss of $1.4 million recorded in the fourth quarter of 2007 due to unfavorable conditions of the credit markets. The impairment loss is recorded as an offset to interest income earned on the Columbia Strategic Cash Fund, which is net against Chapter 11 expenses in the Consolidated Statements of Operations. This impairment was deemed to be other than temporary, and as such, was recorded in earnings.

Net cash value of life insurance represents the cash value of premiums paid by us for life insurance policies in the names of current and former executive officers. We have presented $77.1 million of the $81.0 million total value at December 31, 2007 as a current asset, as it is our expectation that this amount may be accessed in 2008 as part of our reorganization financing. At December 31, 2006, the full amount of net cash value of life insurance policies was presented as a long-term asset, as we did not have an expectation at that time of liquidating any portion of the assets. In November and December 2007, we surrendered and terminated life insurance policies and received approximately $14.8 million of net cash value from the terminations. As a result of the terminations, gross cash value of the policies was reduced by approximately $36.3 million and policy loans of approximately $20.9 million were satisfied. Grace's insurance benefits in force was reduced by approximately $60.1 million.

We have access to committed credit facilities in the U.S., Germany, France, Brazil, Singapore, India and China. In the U.S., under the $250 million DIP facility, $178.5 million was available at December 31, 2007, net of letters of credit and holdback provisions. The term of the DIP facility expires April 1, 2008. We have requested a two-year extension of this DIP facility from the lenders and a hearing before the bankruptcy court with respect to the extension is scheduled for March 17, 2008.

The following table summarizes our U.S. and non-U.S. credit facilities as of December 31, 2007:

Credit Facilities *(In millions)*	Maximum Borrowing Amount	Amount Available	Expiration Date
Country			
U.S.	$ 250.0	$ 178.5	04/01/08
Germany	72.5	72.5	12/31/09
Germany	17.4	6.7	09/30/08
France	5.2	5.2	06/30/08
Brazil	1.1	1.1	03/31/08
Singapore	5.2	3.1	03/31/08
India	3.0	1.9	03/31/08
China	4.7	1.0	03/31/08
Total	$ 359.1	$ 270.0	

We believe that these funds and credit facilities will be sufficient to finance our business strategy while in Chapter 11.

Debt and Other Contractual Obligations— Total debt outstanding at December 31, 2007 was $814.9 million, including $286.2 million of accrued interest on pre-petition debt. As a result of the Chapter 11 filing, we are now in default on $523.6 million of pre-petition debt, which, together with accrued interest thereon, has been included in "liabilities subject to compromise" as of December 31, 2007. The automatic stay provided under the bankruptcy code prevents our lenders from taking any action to collect the principal amounts as well as related accrued interest. However, we will continue to accrue and report interest on such debt during the Chapter 11 proceedings unless further developments lead management to conclude that it is probable that such interest will be compromised.

Set forth below are our contractual obligations as of December 31, 2007:

	Payments due by Period				Payments due	
Contractual Obligations *(In millions)*	Total	Less than 1 Year	1-3 Years	Thereafter	Upon Emergence from Chapter 11	After Emergence from Chapter 11
Operating commitments (1)	$ 56.7	$ 35.5	$ 17.8	$ 3.4	$ —	$ —
Debt	5.0	4.7	0.3	—	—	—
Capital leases	0.9	0.2	0.7	—	—	—
Operating leases	76.4	23.1	38.8	14.5	—	—
Liabilities subject to compromise (2):						
Pre-petition bank debt plus accrued interest	783.0	—	—	—	783.0	—
Drawn letters of credit plus accrued interest	26.9	—	—	—	26.9	—
Asbestos-related contingencies	1,700.0	—	—	—	1,570.0	130.0
Income tax contingencies	89.3	—	—	—	6.9	82.4
Environmental contingencies	368.6	—	—	—	300.7	67.9
Postretirement benefits	184.8	12.1	—	—	14.8	157.9
Other liabilities and accrued interest	137.0	—	—	—	100.8	36.2
Total liabilities subject to compromise	$3,289.6	$ 12.1	$ —	$ —	$ 2,803.1	$ 474.4
Pension funding requirements per ERISA (3)	208.4	53.6	119.5	35.3	—	—
Pension funding requirements for non-U.S. pension plans (4)	74.1	13.7	44.2	16.2	—	—
Total Contractual Obligations	$3,711.1	$ 142.9	$ 221.3	$ 69.4	$ 2,803.1	$ 474.4

(1) Amounts do not include open purchase commitments, which are routine in nature and normally settle within 90 days or obligations to employees under annual or long-term incentive programs.

(2) See Note 2 to the consolidated financial statements set forth elsewhere herein for a discussion of liabilities subject to compromise. Liabilities subject to compromise consist of estimated balances that may become due on the date of emergence from bankruptcy protection, which date is not certain at this time, or subsequent to emergence. Estimated amounts that may become due upon emergence have been presented in the "Upon Emergence from Chapter 11" column above and estimated amounts that may become due subsequent to emergence have been presented in the "After Emergence from Chapter 11" column, as we are not able to determine when these amounts will ultimately be settled. Amounts reflect the estimated claims payable pursuant to our plan of reorganization. It is possible that we could settle a portion of these claims at a date before emergence from Chapter 11 at the stated amounts or at amounts different from those recorded. In accordance with SFAS No. 158, we have presented $12.1 million of certain estimated pension and postretirement obligations subject to compromise as current obligations in the December 31, 2007 Consolidated Balance Sheet.

(3) Based on the U.S. qualified pension plans' status as of December 31, 2007, funding requirements under ERISA have been estimated for the next five years. Amounts in subsequent years have not yet been determined.

(4) Based on the non-U.S. pension plans' status as of December 31, 2007, funding requirements have been estimated for the next five years. Amounts have been translated at the applicable December 31, 2007 exchange rates. Amounts in subsequent years have not yet been determined.

See Note 15 to the Consolidated Financial Statements for a discussion of financial assurances.

Analysis of Cash Flows

Net cash provided by operating activities in 2007 was $88.2 million, compared with $152.7 million for the prior year period. We attribute the lower net cash flow in 2007 to higher Chapter 11-related costs, higher working capital, dividends to joint venture partners and cash paid to resolve certain tax contingencies, partially offset by higher pre-tax operating income. Net cash used for investing activities in 2007 was $206.9 million, compared with $129.4 million in 2006. The increase in investing activities is primarily due to routine capital improvements, capacity expansion at certain production sites, one acquisition, an equity investment, and investments in short-term debt securities. Net cash inflow from financing activities in 2007 was $45.7 million, compared with $21.9 million in 2006, with the increase primarily attributable to cash received from stock options exercised.

Net cash flow provided by operating activities in 2005 was $67.3 million. The higher net cash inflow in 2006 was due to improved core operating results and positive working capital changes. Other major factors affecting the change in operating cash include the nonrecurring payment of $119.7 million to settle tax and environmental contingencies in 2005 and a significant increase in 2006 in defined benefit pension plan funding. Net cash used for investing activities in 2005 was $77.9 million. The increase in investing activities in 2006 versus 2005 was due to the expansion of production facilities, acquisition of catalyst assets and technology, and capital for facilities maintenance. Net cash outflow from financing activities in 2005 was $10.1 million primarily from debt service and reduced stock option activity.

Cash Flow From Core Operations— Cash inflows from core operations were $139.3 million, $186.2 million, and $154.1 million for 2007, 2006 and 2005, respectively. This decrease in cash flows from core operations in 2007 as compared to 2006 and 2005 was primarily attributable to higher investment in working capital and higher capital spending, partially offset by higher pre-tax operating income from core operations.

Core Operations *(In millions)*	December 31, 2007	2006	2005
Cash flows:			
Pre-tax operating income	**$ 284.6**	$ 240.2	$ 201.5
Depreciation and amortization	**113.4**	113.5	120.9
Pre-tax earnings before depreciation and amortization	**398.0**	353.7	322.4
Working capital and other changes	**(131.8)**	(28.7)	(68.8)
Cash flow before investing	**266.2**	325.0	253.6
Proceeds from sale of product line	**21.8**	—	—
Capital expenditures	**(136.9)**	(119.2)	(94.0)
Purchase of equity investment	**(6.3)**	—	—
Businesses acquired	**(5.5)**	(19.6)	(5.5)
Net cash flow from core operations	**$ 139.3**	$ 186.2	$ 154.1

We expect to continue to invest excess cash flow and/or other available capital resources in our core business base. These investments are likely to be in the form of additional plant capacity, product line extensions and geographic market expansions, and/or acquisitions in existing product lines. Investments that are outside the ordinary course of business may be subject to bankruptcy court approval and review by the Chapter 11 creditor committees.

Cash Flow From Noncore Activities— The cash flow from our noncore activities can be volatile. Expenditures are generally governed by bankruptcy court rulings and receipts are generally nonrecurring. Much of the noncore spending in the past three years has been under Chapter 11 first-day motions that allow us to fund postretirement benefits and required environmental remediation on Grace-owned sites. Cash inflows have been from asbestos-related insurance recovery on pre-Chapter 11 liability payments, and unusual events. In 2005, we made a $90 million payment to the U.S. Internal Revenue Service to fund taxes and interest on settled amounts as approved by the bankruptcy court.

Noncore Activities (In millions)	December 31, 2007	2006	2005
Cash flows:			
Pre-tax income (loss) from noncore activities	$ **(59.3)**	$ (97.7)	$ (30.3)
Non-cash charges	**32.5**	41.4	49.9
Cash spending for:			
Investments in short term debt securities, net	**(99.7)**	—	—
Noncore contingencies:			
Tax settlement	**(10.3)**	—	(90.0)
Environmental settlement	—	—	(29.7)
Environmental remediation	**(9.5)**	(10.9)	(6.7)
Postretirement benefits	**(5.0)**	(13.9)	(11.9)
Retained obligations and other	**(1.0)**	(3.6)	(1.0)
Net cash flow from noncore activities	$ **(152.3)**	$ (84.7)	$ (119.7)

Net cash flow from core operations and net cash flow from noncore activities do not represent income or cash flow as defined under generally accepted accounting principles, and you should not consider them to be an alternative to such measures as an indicator of our performance. We provide these measures to permit you to distinguish operating results of our current business base from results and related assets and liabilities of past businesses, discontinued products, and corporate legacies and the effect of our Chapter 11 proceedings.

Inflation

The financial statements are presented on a historical cost basis and do not fully reflect the impact of prior years' inflation. While the U.S. inflation rate has been modest for several years, we operate in international economies with both inflation and currency risks. The ability to pass on inflation costs is an uncertainty due to general economic conditions and competitive situations. The cost of replacing our property and equipment today is estimated to be greater than its historical cost. Accordingly, depreciation expense would be greater if the expense were stated on a current cost basis.

Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that we make estimates and assumptions affecting the assets and liabilities reported at the date of the Consolidated Financial Statements, and the revenues and expenses reported for the periods presented. We believe that our accounting estimates are appropriate and the related balances are reasonable; however, actual amounts could differ from the original estimates, requiring adjustments in future periods. Changes in estimates are recorded in the period identified. Our accounting policies are described in Note 1 to the Consolidated Financial Statements. Critical accounting estimates are described in this section.

An accounting estimate is considered critical if the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made, if different estimates reasonably could have been used, or if changes in the estimate are reasonably likely to occur from period to period that could have a material impact on our financial condition or results of operations. As part of our quarterly disclosure controls and procedures, management has discussed the development, selection and disclosure of the critical accounting estimates with the Audit Committee of the Board of Directors. The accuracy of these and other estimates may be materially affected by the uncertainties arising under our Chapter 11 proceeding.

Contingent Liabilities — We have recorded a liability for the resolution of contingencies related to asbestos lawsuits, environmental remediation, income taxes and litigation. We record a liability if we have determined that a loss is probable, and we are able to reasonably estimate the amount of the loss or have another reasonable basis for recording a liability. We have determined that each of the contingencies discussed below involves an accounting judgment that is material to our Consolidated Financial Statements.

Asbestos-Related Lawsuits

We are a defendant in property damage and personal injury lawsuits relating to previously sold asbestos-containing products. See Note 3 to the Consolidated Financial Statements for a discussion of the background and status of the asbestos-related lawsuits, and how we are attempting to resolve them as part of our Chapter 11 proceeding. We have recorded a liability for our asbestos-related obligations as discussed below.

Prior to the Chapter 11 filing, we estimated our asbestos personal injury liability based on our experience with the cost to resolve such claims given the prevailing conditions in the asbestos tort system. Those conditions meant that the costs for resolution were driven by many factors beyond the merits of the claims. The cost to resolve asbestos

personal injury claims was influenced by numerous variables, including the nature of the disease alleged, product identification, negotiation factors, the solvency of other former producers of asbestos-containing products, cross-claims by co-defendants, the rate at which new claims were being filed, the jurisdiction in which the claims were filed, and the defense and disposition costs associated with these claims.

Prior to the chapter 11 filing, we estimated asbestos property damage liability based upon the cost to resolve such claims in the tort system. The cost to resolve asbestos property damage claims was influenced by factors such as legal defenses, product identification, the amount and type of product involved, the age, type, size and use of the building, the legal status of the claimant, the jurisdictional history of prior cases, the court in which the case is pending, and the difficulty of asbestos abatement, if necessary.

Since the Chapter 11 filing, we have requested that the bankruptcy court conduct proceedings to determine the value of our asbestos-related liabilities. In January 2008, the bankruptcy court commenced a trial for estimating our asbestos personal injury liability. The bankruptcy court is also considering several pending motions that seek the adjudication of most of the remaining asbestos property damage claims. We expect that the bankruptcy court proceedings may provide the basis for determining the amount that must be paid into a trust on the effective date of a plan of reorganization in respect of our asbestos-related claims.

Under our proposed plan of reorganization, it is a condition to confirmation of our proposed plan of reorganization that the bankruptcy court shall conclude that the amount necessary to fund all pending and future asbestos personal injury claims and property damage claims (and trust administration costs and expenses) is not greater than $1,613 million. This amount was based in part on our 2004 evaluation of (1) existing but unresolved personal injury and property damage claims, (2) actuarially-based estimates of future personal injury claims, (3) the risk of loss from the Zonolite attic insulation litigation, (4) proposed claim payments reflected in our plan of reorganization, and (5) the cost of the trust administration and litigation. This condition precedent is the basis for our currently recorded asbestos-related liability.

A wide range of asserted liability has been put forth by stakeholders in the bankruptcy proceedings, from amounts that would indicate liability less than that recorded at December 31, 2007, to amounts that would exceed the business value of Grace. Therefore, we will adjust our recorded asbestos-related liability, as necessary, to reflect rulings by the bankruptcy court.

Our asbestos-related insurance receivable is directly dependent on the amount and nature of our asbestos-related liability. We estimate the amount of the receivable based on our analysis of coverage remaining under insurance policies for the 1962 to 1985 period, and the terms of settlement agreements in effect with certain insurers.

Our liability for asbestos-related matters has had a material impact on our financial condition and results of operations, and future changes in such liability, if required, will likely lead to material adjustments to the Consolidated Financial Statements. We expect the ultimate determination of the resolution cost of this obligation will have a material impact on our liquidity and capital resources.

Environmental Remediation

We are obligated under applicable law to remediate certain properties related to our business or former businesses. At some sites we finance all or a portion of remediation conducted by third parties (generally state or Federal authorities) and at others, we perform the required remediation ourselves. Our environmental remediation obligation has a significant impact on our Consolidated Financial Statements. See Note 15 to the Consolidated Financial Statements for a discussion of our environmental remediation liabilities.

At sites where third parties conduct remediation, we estimate our obligations from information available from regulatory authorities including actual costs incurred, expected future costs and time to completion.

At sites where we conduct remediation, we work with regulatory authorities to define compliance requirements and then estimate the cost required to meet those requirements. We base our estimates on our historical knowledge and engineering assessments specific to conditions at each site and we update our estimates as necessary.

Our estimates can fluctuate significantly due to the extended duration of some remediation projects. The accuracy of our estimates is dependent on the validity of assumptions regarding such matters as labor rates, indirect costs and capital costs (such as building materials), which are difficult to forecast over extended periods. We cannot estimate the impact on our Consolidated Financial Statements of using other reasonably possible assumptions because we primarily rely on the assumptions and estimates of the applicable regulatory authorities. Future changes in estimates, if required, will more than likely lead to material adjustments to our Consolidated Financial Statements, and we expect the ultimate resolution of these obligations to have a material impact on our liquidity and capital resources.

Litigation

We are subject to legal proceedings and claims arising out of the normal course of business. We are currently a party to various legal proceedings, both civil and criminal in nature, in which we have been named as a defendant. See Note 15 to the Consolidated Financial Statements for a discussion of our significant legal proceedings.

To estimate the cost to resolve our legal obligations, we review the facts of each matter to determine the merits of the case and the corresponding probability of a loss. If we determine that a loss is probable, we determine if there is sufficient information to make a reasonable estimate of the loss amount. Our estimates regarding the outcome of our legal proceedings and claims involve substantial uncertainties that could cause our actual losses to differ materially from our estimates. In estimating the likely outcome of a legal proceeding, we consider the nature of the specific claim (or unasserted claim), our experience with similar claims, the jurisdiction in which the proceeding is filed, court rulings, the status of any settlement negotiations, the likelihood of resolution through settlement or alternative dispute resolution, the proceeding's current status and other relevant information and events. We adjust our recorded liability for litigation contingencies as necessary to reflect our current evaluation of these and other factors.

Pension and Other Postretirement Benefits Expenses and Liabilities — We sponsor defined benefit pension plans for our employees in the United States, Canada, the United Kingdom, Australia, Germany, Italy, France, Spain, Netherlands, Japan, Philippines, South Korea, Taiwan, South Africa, Brazil and Mexico and fund government sponsored programs in other countries where we operate. See Note 19 to the Consolidated Financial Statements for a detailed discussion of our pension plans and other postretirement benefit plans.

In order to estimate our pension and other postretirement benefits expenses and liabilities, we evaluate the range of possible assumptions to be used in the calculation of pension and other postretirement benefits expenses and liabilities. We select the assumptions that we believe to be most indicative of factors such as participant demographics, past experiences and market indices, and provide the assumptions to independent actuaries. These assumptions are updated annually and primarily include factors such as discount rates, health care cost trend rates, expected return on plan assets, mortality rates, retirement rates, and rate of compensation increase. The independent actuaries review our assumptions for reasonableness, and use the assumptions to calculate our estimated liability and future pension expense. We review the actuarial reports for reasonableness and adjust our expenses and liabilities to reflect the amounts calculated in the actuarial reports.

On a quarterly basis, we analyze the rollforward of pension assets and pension liabilities along with the resulting funded status to assure that the Consolidated Balance Sheet reflects an updated estimate of these measures each period. Funded status is adjusted for actual contributions, benefit payments, return on assets and other identifiable and material actuarial changes. Discount rates are also evaluated for reasonableness each period.

Income Taxes— We are a global enterprise with operations in more than 40 countries. This global reach results in a complexity of tax regulations, which require assessments of applicable tax law and judgments in estimating our ultimate income tax liability. See Note 4 to the Consolidated Financial Statements for a detailed discussion of our estimates used in accounting for income taxes and income tax contingencies.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. We measure tax benefits in our financial statements from such a position as the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed in our tax returns that do not meet these recognition and measurement standards.

We record a liability for income tax contingencies when it is more likely than not that a tax position we have taken will not be sustained upon audit. We evaluate such likelihood based on relevant facts and tax law. We adjust our recorded liability for income tax matters due to changes in circumstances or new uncertainties, such as amendments to existing tax law. Our ultimate tax liability depends upon many factors, including negotiations with taxing authorities in the jurisdictions in which we operate, outcomes of tax litigation and resolution of disputes arising from federal, state, and international tax audits. Due to the varying tax laws in each jurisdiction senior management, with the assistance of local tax advisors as necessary, assesses individual matters in each jurisdiction on a case-by-case basis. We research and evaluate our income tax positions, including why we believe they are compliant with income tax regulations, and these positions are documented internally.

Deferred income taxes result from the differences between the financial and tax basis of our assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. If it is more likely than not that all or a portion of deferred tax assets will not be realized, a valuation allowance is provided against such deferred tax assets. Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The assessment of realization of deferred tax assets is performed annually under scenarios of future taxable income and tax planning alternatives that are considered reasonable in the circumstances.

Recent Accounting Pronouncements

See Note 1 of Consolidated Financial Statements for a discussion of recent accounting pronouncements and their effect on us.

Market Risk

Our debt obligations, global operations, the nature of the specialty chemicals production process and the industries in which we engage expose us to various market risks. We utilize derivative financial instruments and derivative commodity instruments to mitigate certain market risks. The following is a discussion of our primary market risk exposures, how those exposures are managed, and certain quantitative data pertaining to our market risk sensitive instruments.

Interest Rate Risk

Interest rate fluctuations directly affect interest expense and cash to be paid out in the form of interest payments on variable-rate debt, and can potentially lead to changes in the market value of the associated variable-rate debt.

We have $500.0 million of outstanding pre-petition variable-rate borrowings under bank revolving credit agreements, and interest is accrued on this debt based on the prime rate. Due to our Chapter 11 filing, interest accrued on pre-petition debt is added to the principal balance. As of December 31, 2007 and 2006, total interest accrued on this debt and added to the $500.0 million principal was $283.0 million and $223.1 million, respectively. If the prime rate were to vary in the near-term by one percentage point, the effect would be to increase or decrease interest expense and accrued interest on outstanding principal by approximately $8.2 million over the twelve-month period ended December 31, 2008.

We also maintain a $250 million debtor-in-possession facility. The interest rate under this facility is based on LIBOR, a variable rate. As of December 31, 2007 and 2006, no amount was outstanding under this facility, and $178.5 million and $175.0 million, respectively, was available to us, net of letters of credit and holdback provisions.

We do not currently use derivative instruments to attempt to mitigate interest rate risk.

Foreign Currency Exchange Rate Risk

Because we do business in over 40 countries, our results of operations are exposed to fluctuations in foreign exchange rates. We seek to minimize exposure to these fluctuations by matching revenue streams in volatile currencies with expenditures in the same currencies, but it is not always possible to do so. From time to time, we use financial instruments such as foreign currency forward contracts, options, or combinations of the two to reduce the risk of certain specific transactions. However, we do not have a policy of hedging all exposures, because management does not believe that such a level of hedging would be cost-effective, particularly translation exposures that are not expected to affect cash flows in the near-term. Significant uses of derivatives to mitigate the effects of changes in foreign currency exchange rates are as follows:

In May 2004, we purchased forward contracts with a U.S. bank to minimize currency risk related to a Euro-denominated intercompany loan due from one of our German subsidiaries to one of our U.S. subsidiaries. In June 2005, we extended a portion of the forward contract amounts to dates that mature on the dates of the scheduled principal repayments. As part of the contract extension, we were required to pay a settlement premium of $9.3 million to the bank. We expect this settlement premium will be recovered over time as the contracts are settled at rates greater than the initial rates in the May 2004 foreign currency forward contracts. Currency fluctuations on this loan are recorded as a component of operating results. The loan is denominated in Euros, and the total amount outstanding under the intercompany loan was €61.6 million and €134.8 million as of December 31, 2007 and 2006, respectively (approximately $89.9 million and $177.6 million, respectively).

In November 2007, we executed an intercompany loan in the amount of €250 million (Euros) between our principal U.S. operating subsidiary and a newly established German subsidiary as part of a legal restructuring. In conjunction with the loan, our U.S. subsidiary entered into a series of foreign currency forward contracts to attempt to minimize the impact to earnings from foreign currency movements. The forward contracts are aligned with the payment schedule of the intercompany loan, which has annual principal and interest payments in November 2009 through November 2013. The total amount outstanding under the intercompany loan was €250.0 million as of December 31, 2007 (approximately $364.7 million).

The following tables provide information about our significant foreign currency forward exchange agreements as of December 31, 2007 and 2006, specifically, the notional, or contract, amounts (in millions of $U.S.), and weighted average exchange rates ($U.S. to Euros) by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The fair values represent the fair value of the derivative contracts, and are presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets.

	Euro Forward Contracts—December 31, 2007 Expected Maturity Date							
Foreign Currency Forward Exchange Agreements	2008	2009	2010	2011	2012	2013	Total	Fair Value
Contract amount	79.1	72.7	72.5	72.5	72.6	72.9	442.3	(11.1)
Average contractual exchange rate	1.28	1.45	1.45	1.45	1.45	1.46	1.42	N/A

	Euro Forward Contracts—December 31, 2006 Expected Maturity Date								
Foreign Currency Forward Exchange Agreements	2007	2008	2009	2010	2011	2012	2013	Total	Fair Value
Contract amount	92.8	79.1	—	—	—	—	—	171.9	(11.6)
Average contractual exchange rate	1.27	1.28	—	—	—	—	—	1.27	N/A

Commodity Price Risk

We operate in markets where the prices of raw materials and energy are commonly affected by cyclical movements of the economy. The principal raw materials used in our products include caustic, alumina, rare earths, nickel, aluminum, cobalt carbonate, kaolin, molybdenum, sodium aluminate,

sodium silicate, olefins, gypsum, resins, rubber and latices. Natural gas is the largest single energy source that we purchase. These commodities are generally available to be purchased from more than one supplier. In order to minimize the risk of increasing prices on certain raw materials and energy, we use a centralized supply chain organization for procurement in order to improve purchasing activities. We have a risk management committee to review proposals to hedge purchases of raw materials, energy and currency.

We have implemented an energy risk management program under which our goal is to hedge natural gas supply in a way that provides protection against price volatility of the natural gas market. In order to mitigate volatile natural gas prices, we have entered into fixed price swaps to hedge a portion of our 2008 natural gas requirements.

The following tables provide information about our commodity derivatives that are sensitive to changes in commodity prices, specifically natural gas prices. Contract volumes, or notional amounts, are presented in millions of British thermal units (MMBtu), weighted average contract prices are presented in $U.S. per MMBtu, and the total contract amount and fair value are presented in millions of $U.S. The fair values represent the fair value of the derivative contracts. The fair value for swaps represents the excess of the variable price (market price) over the fixed price (pay price) multiplied by the nominal contract volumes. The fair value of forward contracts represents the excess of the market value amounts (as quoted on commodity exchanges) over the contract amount. All commodity derivative instruments mature in the subsequent year.

	Commodity Derivatives—December 31, 2007			
Type of Contract	Contract Volumes	Weighted Average Price	Total Contract Amount	Fair Value
Swaps	1.8	8.18	14.7	(1.0)

	Commodity Derivatives—December 31, 2006			
Type of Contract	Contract Volumes	Weighted Average Price	Total Contract Amount	Fair Value
Forwards	0.6	10.56	6.0	3.5
Swaps	2.0	8.10	16.2	(1.7)

The fair value of commodity swaps and options derivative contracts are presented as other assets or other liabilities and allocated between current and non-current, as appropriate, in the Consolidated Balance Sheets. Our forward contracts for natural gas qualify for the normal purchases and normal sales exception from SFAS No. 133, as they do not contain net settlement provisions, and result in physical delivery of natural gas from suppliers. Therefore, the fair values of these contracts are not recorded in our Consolidated Balance Sheets.

W. R. GRACE & CO. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
(In millions)

For the Year Ended December 31, 2007

Description	Balance at beginning of period	Additions/(deductions): Charged/(credited) to costs and expenses	Additions/(deductions): Cash received/(paid)	Additions/(deductions): Other net (2)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 8.3	$ (1.4)	$ —	$ —	$ 6.9
Allowances for long-term receivables	0.5	(0.5)	—	—	—
Allowances for inventory obsolescence	6.8	(1.3)	—	—	5.5
Valuation allowance for deferred tax assets	185.2	(42.2)	—	—	143.0
Reserves:					
Reserves for asbestos-related litigation	1,700.0	—	—	—	1,700.0
Reserves for environmental remediation	361.1	17.0	(9.5)	—	368.6
Reserves for retained obligations of divested businesses	$ 23.3	$ —	$ (1.0)	$ 13.9	$ 36.2

For the Year Ended December 31, 2006

Description	Balance at beginning of period	Additions/(deductions): Charged/(credited) to costs and expenses	Additions/(deductions): Cash received/(paid)	Additions/(deductions): Other net (1)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 6.7	$ 1.6	$ —	$ —	$ 8.3
Allowances for long-term receivables	0.7	(0.2)	—	—	0.5
Allowances for inventory obsolescence	6.7	0.1	—	—	6.8
Valuation allowance for deferred tax assets	245.3	(60.1)	—	—	185.2
Reserves:					
Reserves for asbestos-related litigation	1,700.0	—	—	—	1,700.0
Reserves for environmental remediation	342.0	30.0	(10.9)	—	361.1
Reserves for retained obligations of divested businesses	$ 23.4	$ 4.0	$ (3.6)	$ (0.5)	$ 23.3

For the Year Ended December 31, 2005

Description	Balance at beginning of period	Additions/(deductions): Charged/(credited) to costs and expenses	Additions/(deductions): Cash received/(paid)	Additions/(deductions): Other net (1)	Balance at end of period
Valuation and qualifying accounts deducted from assets:					
Allowances for notes and accounts receivable	$ 7.5	$ (0.8)	$ —	$ —	$ 6.7
Allowances for long-term receivables	0.8	(0.1)	—	—	0.7
Allowances for inventory obsolescence	9.1	(2.4)	—	—	6.7
Valuation allowance for deferred tax assets	242.6	2.7	—	—	245.3
Reserves:					
Reserves for asbestos-related litigation	1,700.0	—	—	—	1,700.0
Reserves for environmental remediation	345.0	25.0	(6.7)	(21.3)	342.0
Reserves for retained obligations of divested businesses	$ 25.1	$ 5.0	$ (4.7)	$ (2.0)	$ 23.4

(1) Various miscellaneous adjustments against reserves.
(2) Primarily represents a reclass from tax reserves

Exhibit 12

W. R. GRACE & CO. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS [1]
(In millions, except ratios)
(Unaudited)

	Years Ended December 31, [2]				
	2007 [3]	2006 [3]	2005 [3]	2004 [4]	2003 [5]
Net income (loss) from continuing operations	$ 80.3	$ 18.3	$ 67.3	$ (402.3)	$ (55.2)
Provision for (benefit from) income taxes	(5.8)	8.1	21.3	(1.5)	(12.3)
Minority interest in income (loss) of majority owned subsidiaries	17.7	32.8	19.7	8.1	(1.5)
Equity in unremitted losses (earnings) of less than 50%-owned companies	—	—	—	—	0.3
Interest expense and related financing costs, including amortization of capitalized interest	73.0	74.1	56.6	112.6	17.5
Estimated amount of rental expense deemed to represent the interest factor	6.9	6.2	6.2	5.6	5.1
Income (loss) as adjusted	$ 172.1	$ 139.5	$ 171.1	$ (277.5)	$ (46.1)
Combined fixed charges and preferred stock dividends:					
Interest expense and related financing costs, including capitalized interest	$ 84.2	$ 74.2	$ 54.9	$ 100.7	$ 18.0
Estimated amount of rental expense deemed to represent the interest factor	6.9	6.2	6.2	5.6	5.1
Fixed charges	91.1	80.4	61.1	106.3	23.1
Combined fixed charges and preferred stock dividends	$ 91.1	$ 80.4	$ 61.1	$ 106.3	$ 23.1
Ratio of earnings to fixed charges	1.89	1.74	2.80	[6]	[6]
Ratio of earnings to combined fixed charges and preferred stock dividends	1.89	1.74	2.80	[6]	[6]

(1) Grace preferred stocks were retired in 1996.
(2) Certain amounts have been restated to conform to the 2007 presentation.
(3) Amounts in 2007, 2006, and 2005 contain provisions for environmental remediation of $17.0 million, $30.0 million, and $25.0 million, respectively.
(4) Amounts reflect the following adjustments: a $476.6 million accrual to increase our recorded asbestos-related liability, net of expected insurance recovery of $238.2 million; a $94.1 million accrual to increase our estimate of interest to which general unsecured creditors would be entitled; and a $151.7 million credit for net income tax benefits related to the items described above.
(5) Amounts include $172.5 million for pre-tax charges to adjust our estimated liability for environmental remediation and asbestos-related property damage.
(6) As a result of the losses incurred for the years ended December 31, 2004 and 2003, we were unable to fully cover the indicated fixed charges (a shortfall of $383.8 million and $69.2 million, respectively).

EXHIBIT 21

✓ **W. R. GRACE & CO., a Delaware corporation**
U.S. SUBSIDIARIES

12/31/2007

✓ Chapter 11 Filing — April 2, 2001

		SUBSIDIARY NAME		CO.#		STATE OF INCORPORATION
✓		A-1 Bit & Tool Co., Inc.		458		DE
		* Advanced Refining Technologies LLC		268 (f/k/a 930)		DE
✓		Alewife Boston Ltd.		070		MA
✓		Alewife Land Corporation		069		MA
		Alltech Associates, Inc.		259		IL
✓		Amicon, Inc.		174		DE
		AP Chem Incorporated		436		MD
✓		CB Biomedical, Inc.		125		DE
✓		CCHP, Inc.		074		DE
✓		Coalgrace, Inc.		824		DE
✓		Coalgrace II, Inc.		835		DE
		Construction Products Dubai, Inc.		121		DE
✓		Creative Food 'N Fun Company		587		DE
✓		Darex Puerto Rico, Inc.		798		DE
✓		Del Taco Restaurants, Inc.		557		DE
✓		Dewey and Almy, LLC		406		DE
✓		Ecarg, Inc.		519		NJ
✓		Five Alewife Boston Ltd.		071		MA
✓		G C Limited Partners I, Inc.		465		DE
✓		G C Management, Inc.		539		DE
✓		GEC Management Corporation		689		DE
✓		GN Holdings, Inc.		073		DE
✓		GPC Thomasville Corp.		637		DE
✓		Gloucester New Communities Company, Inc.		572		NJ
✓		Grace A-B Inc.		625		DE
✓		Grace A-B II Inc.		827		DE
		Grace Asia Pacific, Inc.		107		DE
		Grace Chemicals, Inc.		710		DE
✓		Grace Chemical Company of Cuba		305		IL
		Grace Collections, Inc.		316		DE
✓		Grace Culinary Systems, Inc.		479		MD
✓		Grace Drilling Company		877		DE

* Ownership of Advanced Refining Technologies LLC is 55% W. R. Grace & Co.-Conn. (#001) and 45% Chevron USA, Inc.; certain enumerated actions of the Executive Committee require unanimous consent.

		SUBSIDIARY NAME		CO.#		STATE OF INCORPORATION
✓		Grace Energy Corporation		681		DE
✓		Grace Environmental, Inc.		198		DE
✓		Grace Europe, Inc.		407		DE
		Grace Germany Holdings, Inc.				DE
✓		Grace H-G Inc.		506		DE
✓		Grace H-G II Inc.		828		DE
✓		Grace Hotel Services Corporation		480		DE
✓		Grace International Holdings, Inc.		543		DE
		Grace Latin America, Inc.		263		DE
		Grace Management Services, Inc.		485		DE
✓		Grace Offshore Company		822		LA
✓		Grace PAR Corporation		621		DE
✓		Grace Petroleum Libya Incorporated		880		DE
		Grace Receivables Purchasing, Inc.		041		DE
✓		Grace Tarpon Investors, Inc.		462		DE
✓		Grace Ventures Corp.		664		DE
✓		Grace Washington, Inc.		197		DE
✓		W. R. Grace Capital Corporation		563		NY
✓		W. R. Grace & Co.-Conn.		001		CT
✓		W. R. Grace Land Corporation		523		NY
✓		Gracoal, Inc.		856		DE
✓		Gracoal II, Inc.		848		DE
✓		Guanica-Caribe Land Development Corporation		376		DE
✓		Hanover Square Corporation		516		DE
✓		Homco International, Inc.		631		DE
		Ichiban Chemical Co., Inc.		028		DE
✓		Kootenai Development Company		079		MT
✓		L B Realty, Inc.		495		DE
✓		Litigation Management, Inc.		317		DE
✓		Monolith Enterprises, Incorporated		477		DC
✓		Monroe Street, Inc.		481		DE
✓		MRA Holdings Corp.		075		DE
✓		MRA Intermedco, Inc.		076		DE
✓		MRA Staffing Systems, Inc.		077		DE
		NZ Alltech, Inc.				IL
✓		Remedium Group, Inc.		063		DE
✓		Southern Oil, Resin & Fiberglass, Inc.		318		FL
✓		Water Street Corporation		548		DE

NON-U.S. SUBSIDIARIES

ARGENTINA
W. R. Grace Argentina S.A.
WRG Argentina, S.A.
AUSTRALIA
Alltech Associates (Australia) Pty. Ltd.
Grace Australia Pty. Ltd.
BELGIUM
Grace Construction Products N.V.
Grace N.V.
Grace Silica N.V.
Inverco Benelux N.V.
BRAZIL
Grace Brasil Ltda.
Grace Davison Ltda.
CANADA
GEC Divestment Corporation Ltd.
Grace Canada, Inc.
W. R. Grace Finance (NRO) Ltd.
CHILE
Grace Quimica Compania Limitada
CHINA - PEOPLE'S REPUBLIC OF
Grace China Ltd.
Grace Trading (Shanghai) Co., Ltd.
COLOMBIA
Grace Colombia S.A.
W. R. G. Colombia S.A.
CUBA
Envases Industriales y Comerciales, S.A.
Papelera Camagueyana, S.A.
FRANCE
Alltech France S.A.R.L.
Grace Produits de Construction SAS
Société Civile Beau-Béton
W. R. Grace S.A.
GERMANY
Advanced Refining Technologies GmbH
Alltech Grom GmbH
Grace Bauprodukte GmbH
Grace Darex GmbH
Grace Energy GmbH
Grace Europe Holding GmbH
Grace GP GmbH
Grace Management GP GmbH
Grace Silica GmbH

GREECE
Grace Hellas E.P.E.
HONG KONG
Alltech Applied Science Labs (HK) Limited
Alltech Scientific (China) Limited
W. R. Grace (Hong Kong) Limited
W. R. Grace Southeast Asia Holdings Limited
HUNGARY
Grace Értékesito Kft.
INDIA
Flexit Laboratories Private Ltd.
W. R. Grace & Co. (India) Private Limited
INDONESIA
PT. Grace Specialty Chemicals Indonesia
IRELAND
Amicon Ireland Limited
Grace Construction Products (Ireland) Limited
Trans-Meridian Insurance (Dublin) Ltd.
ITALY
Alltech Italia S.R.L.
W. R. Grace Italiana S.p.A.
JAPAN
Advanced Refining Technologies K.K.
Grace Chemicals K.K.
Grace Japan Kabushiki Kaisha
KOREA
Grace Korea Inc.
MALAYSIA
W. R. Grace (Malaysia) Sendiran Berhad
W. R. Grace Specialty Chemicals (Malaysia) Sdn. Bhd.
MEXICO
Grace Container, S. A. de C. V.
W. R. Grace Holdings, S. A. de C. V.
NETHERLANDS
Alltech Applied Science B.V.
Amicon B.V.
Denac Nederland B.V.
LC Service B.V.
Storm van Bentem en Kluyver B.V.
W. R. Grace B.V.
NETHERLANDS ANTILLES
W. R. Grace N.V.
NEW ZEALAND
Grace (New Zealand) Limited
PHILIPPINES
W. R. Grace (Philippines), Inc.
POLAND
Grace Sp. z o.o.
RUSSIA
Darex CIS LLC
SINGAPORE
W. R. Grace (Singapore) Private Limited

SOUTH AFRICA
Grace Davison (Proprietary) Limited
W. R. Grace Africa (Proprietary) Limited
SPAIN
Grace, S.A.
Pieri Especialidades, S.L.
SWEDEN
Grace AB
Grace Catalyst AB
Grace Sweden AB
SWITZERLAND
Pieri S.A.
TAIWAN
W. R. Grace Taiwan, Inc.
THAILAND
W. R. Grace (Thailand) Limited
UNITED KINGDOM
A.A. Consultancy & Cleaning Company Limited
Alltech Associates Applied Science Limited
Cormix Limited
Borndear 1 Limited
Borndear 2 Limited
Borndear 3 Limited
Darex UK Limited
Emerson & Cuming (Trading) Ltd.
Emerson & Cuming (UK) Ltd.
Exemere Limited
Grace Construction Products Limited
Pieri U.K. Limited
Servicised Ltd.
W. R. Grace Limited
VENEZUELA
Grace Venezuela, S.A.
Inversiones GSC, S.A.
VIETNAM
W. R. Grace Vietnam Company Limited

EXHIBIT 24

POWER OF ATTORNEY

The undersigned hereby appoints ROBERT M. TAROLA, MARK A. SHELNITZ, and MICHAEL W. CONRON as his true and lawful attorneys-in-fact for the purpose of signing the Annual Report on Form 10-K of W. R. GRACE & CO. for the year ended December 31, 2007, and all amendments thereto, to be filed with the Securities and Exchange Commission. Each of such attorneys-in-fact is appointed with full power to act without the other.

/s/ John F. Akers
John F. Akers

Dated: February 28, 2008

POWER OF ATTORNEY

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/s/ H. Furlong Baldwin
H. Furlong Baldwin

Dated: February 28, 2008

POWER OF ATTORNEY

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/s/ Ronald C. Cambre
Ronald C. Cambre

Dated: February 28, 2008

POWER OF ATTORNEY

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/s/ Marye Anne Fox
Marye Anne Fox

Dated: February 28, 2008

POWER OF ATTORNEY

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/s/ John J. Murphy
John J. Murphy

Dated: February 28, 2008